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February 25, 2021

Financial Report for the Fiscal Year Ended December 31, 2020 (January 1, 2020 – December 31, 2020)

Japan Hotel REIT Investment Corporation

Listing: Tokyo Stock Exchange
Securities code: 8985
URL: <http://www.jhrth.co.jp/en/>
Representative: Kaname Masuda, Executive Director

Asset Management Company: Japan Hotel REIT Advisors Co., Ltd.
Representative: Hisashi Furukawa, President & CEO
Contact: Noboru Itabashi
Managing Director, Director of the Board, Head of Operations Division
Phone: +81-3-6422-0530

Scheduled date to file Securities Report: March 25, 2021
Scheduled date to start dividend payment: March 22, 2021

Preparation of supplementary material on financial report: Yes
Schedule for presentation of financial results: Yes (Analysts and institutional investors only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the fiscal year ended December 31, 2020 (January 1, 2020 – December 31, 2020)

(1) Operating results

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary income		Net income	
Fiscal year ended	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
December 31, 2020	13,838	(51.1)	3,176	(81.5)	1,398	(90.9)	1,527	(90.0)
December 31, 2019	28,278	0.1	17,148	(4.7)	15,291	(5.7)	15,290	(5.7)

	Net income per unit	Return on equity (ROE)	Ordinary income to total assets	Ordinary income to operating revenue
Fiscal year ended	JPY	%	%	%
December 31, 2020	342	0.7	0.3	10.1
December 31, 2019	3,447	7.0	4.0	54.1

(Note) Net income per unit is calculated based on the period-average number of investment units issued.

(2) Cash distributions

	Dividend per unit (Excess of earnings exclusive)	Total dividends (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings	Total dividends from excess of earnings	Payout ratio	Dividend to net assets
Fiscal year ended	JPY	JPY1M	JPY	JPY1M	%	%
December 31, 2020	410	1,829	-	-	119.8	0.8
December 31, 2019	3,690	16,466	-	-	107.7	7.1

(Note 1) The source of dividends for the fiscal year ended December 31, 2020, is calculated by adding appropriation for dividends (¥305 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 3> Dividend per unit and appropriation for dividends” on page 18.

(Note 2) The source of dividends for the fiscal year ended December 31, 2019, is calculated by adding appropriation for dividends (¥1,176 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 3> Dividend per unit and appropriation for dividends” on page 18.

(Note 3) Payout ratio is calculated using the following formula, rounded off to one decimal place.

Total dividends (total dividends from excess of earnings exclusive) ÷ Net income × 100

(3) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Fiscal year ended	JPY1M	JPY1M	%	JPY
December 31, 2020	400,296	221,201	55.3	49,570
December 31, 2019	415,722	236,522	56.9	53,004

(Note) Net assets per unit are calculated based on the total number of investment units issued and outstanding at the end of the fiscal year.

(4) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
Fiscal year ended	JPY1M	JPY1M	JPY1M	JPY1M
December 31, 2020	13,747	(3,077)	(16,461)	28,553
December 31, 2019	20,000	(72,464)	49,623	34,343

2. Operating forecast for the fiscal year ending December 31, 2021 (January 1, 2021 – December 31, 2021)

(Percentages show changes from the previous year)

	Operating revenue		Operating income		Ordinary income		Net income		Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%	JPY	JPY
Midterm	4,556	(17.7)	(750)	-	(1,636)	-	(1,637)	-	-	-
Full year	13,920	0.6	2,715	(14.5)	879	(37.1)	877	(42.5)	270	-

(Reference) Estimated net income per unit for the fiscal year ending December 31, 2021 (full year) ¥196

(Calculated based on the estimate of period-average number of investment units of 4,462,347.)

(Note) JHR plans to use reversal of reserve for temporary difference adjustment in the amount of ¥330 million for dividend payment.

*** Other**

- (1) Changes in accounting policies, changes in accounting estimates, and restatement of financial statements for prior period after error corrections
 - (a) Changes in accounting policies due to revisions to accounting standards and other regulations: No change
 - (b) Changes in accounting policies due to other reasons than above (a): No change
 - (c) Changes in accounting estimates: No change
 - (d) Restatement of financial statements for prior period after error corrections: No change
- (2) Total number of investment units issued and outstanding
 - (a) Total number of investment units issued and outstanding at the end of the fiscal year
(including investment units owned by Japan Hotel REIT Investment Corporation)

As of December 31, 2020	4,462,347 units
As of December 31, 2019	4,462,347 units
 - (b) Number of JHR's own investment units held at the end of the fiscal year

As of December 31, 2020	0 units
As of December 31, 2019	0 units

(Note) For the number of investment units serving as the basis of computation of net income per unit, please refer to "Notes on per unit information" on page 40.

*** Financial reports are exempt from the audit by a certified public accountant or an auditing firm.**

*** Special items**

Forward-looking statements presented in this financial report including operating forecasts are based on information currently available to us and on certain assumptions we deem to be reasonable. As such, actual operating and other results may differ materially from these forecasts due to a number of factors. Furthermore, we do not intend to guarantee any dividend amount by this forecast. For the assumptions of the operating forecast and notes for the use of operating forecast, please refer to "1. Operating results; (1) Operating results; (B) Outlook for the next fiscal period" on page 6 and "Assumptions of the operating forecast for the midterm of the fiscal year ending December 31, 2021 (22nd period) and full year of the fiscal year ending December 31, 2021 (22nd period)" on page 11.

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1. Operating results

(1) Operating results

(A) Overview of the fiscal year under review

(a) Brief history and principal activities

Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”) was established under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, as amended; hereinafter referred to as the “Investment Trusts Act”) on November 10, 2005, and was listed on the Real Estate Investment Trust (REIT) section of the Tokyo Stock Exchange (Securities code: 8985) on June 14, 2006.

JHR entrusts the asset management to Japan Hotel REIT Advisors Co., Ltd. (hereinafter referred to as the “Asset Management Company”). Focusing on the importance of hotels as social infrastructure and their profitability as investment real estate properties, JHR has primarily invested in real estate related assets which are in themselves wholly or partially used as hotels or real estate equivalents of such real estate or which are backed by such real estate or real estate equivalents (hereinafter referred to as the “Real Estate for Hotels, etc.”).

JHR, the former Nippon Hotel Fund Investment Corporation (hereinafter referred to as the “former NHF”), merged with the former Japan Hotel and Resort, Inc. (hereinafter referred to as the “former JHR”) with an effective date of April 1, 2012 (hereinafter referred to as the “Merger”), and changed its name to Japan Hotel REIT Investment Corporation. Since the Merger to the end of the fiscal year under review, JHR has carried out nine public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment target areas” where domestic and inbound leisure demand can be expected over the medium to long term.

By implementing the aforementioned growth strategy, JHR has expanded its asset size while improving the quality of its portfolio through new property acquisitions of 26 properties amounting to ¥275,160 million (acquisition price basis) in total in a little less than nine years since the Merger to the end of the fiscal year under review (December 31, 2020). As a result, JHR had a portfolio of 42 properties with a combined acquisition price of ¥370,031 million, and the total number of investment units issued and outstanding stood at 4,462,347 units at the end of the fiscal year under review.

(b) Investment performance for the fiscal year under review

The Japanese economy in the fiscal year under review (from January 1, 2020 to December 31, 2020) remained in a difficult situation since February 2020, as economic activities were significantly restrained both in and outside Japan due to the impact of the novel coronavirus (COVID-19). The domestic accommodation and tourism market was heavily impacted by a significant decrease in the number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”), which was estimated to be 4.11 million in 2020 (-87.1% year on year), due to travel restrictions to Japan from abroad, etc., as well as by the nationwide self-restraint pertaining to events and suspension of operations at large theme parks in accordance with the government’s declaration of a state of emergency, resulting in a sharp drop in domestic demand. Accordingly, the cumulative number of overnight guests at domestic accommodation facilities in 2020 fell by 48.6% year on year to 306 million guest nights (preliminary release). Domestic demand for accommodation showed a sign of recovery in the latter half of the year thanks to the “Go To Travel” campaign, a government measure to stimulate domestic tourism demand that started in late July 2020, but the earnings environment surrounding hotels remained uncertain as temporary suspension of the campaign was decided in December due to the re-spread of COVID-19 from November.

As to the performance of hotels owned by JHR under these circumstances, RevPAR (Note 1) and GOP (gross operating profit) of all hotels including The 24 hotels with Variable Rent, etc. (Note 2) for the fiscal year fell significantly below the figures of the previous year due to the impact of the spread of COVID-19.

To cope with the hardship, JHR maintained close communication with the lessees and operators of its respective hotels and worked to secure hotel earnings through reduction of operating costs, etc. In particular, after discussions and investigations with JHR, Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), a hotel lessee and a group company of the Asset Management Company and a hotel lessee, and its subsidiaries (hereinafter collectively called the “HMJ Group”), implemented large-scale restructuring of labor costs, outsourcing costs and other costs. Having achieved larger cost reductions in the fiscal year under review compared with fiscal 2019, the HMJ Group is expected to reduce costs consistently in the following fiscal year and thereafter. Based on this, JHR concluded fixed-term building lease contract with the HMJ Group as of August 25, 2020, agreeing to exempting fixed rent of each hotel operated by the HMJ Group from February 2020 through the end of 2021 (fixed rent and variable rent will be employed as before for 2022 and thereafter).

As for The Ishin Group Hotels (Note 3), its performance worsened due to the impact of the spread of COVID-19, making it difficult for JHR to collect fixed rent as designated in the lease contract. Accordingly, JHR decided to change the rent structure in the lease contract with respective lessees of The Ishin Group Hotels for April 2020 and thereafter, in consideration of its impact on rent not only for the fiscal year under review but also for the future.

Moreover, JHR decided that it is appropriate to partly realize unrealized gain of owned assets to record it as gain on sale of real estate properties and enhance the liquidity on hand. Accordingly, JHR sold Sotetsu Fresa Inn Shimbashi-Karasumoriguchi as of July 1, 2020, recording ¥3,158 million as gain on sale of real estate properties. JHR also exchanged the real estate beneficial interest in trust of land that is part of the site of HOTEL ASCENT FUKUOKA with the real estate beneficial interest in trust of the land that is part of an adjacent building (hereinafter referred to as the “Exchange Transaction”) as of October 29, 2020. As a result of the Exchange Transaction, the mutual leasehold ownership was terminated and JHR acquired full ownership of HOTEL ASCENT FUKUOKA. This led to higher asset value, and JHR recorded ¥184 million as gain on exchange of real estate properties.

Furthermore, JHR made a drastic review of its capital expenditures, including large-scale renovation work planned for the fiscal year under review, and worked to reduce such cost items as real estate operating costs and general and administrative expenses.

For further details of management indicators for The 24 hotels with Variable Rent, etc., please refer to “<Reference Information 2> Hotel operation indexes, sales and GOP” on page 17.

(Note 1) RevPAR: Represents revenue per available room, which is calculated by dividing revenue for rooms for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

(Note 2) The hotel group combining the hotels which JHR leases to HMJ (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivola and Oriental Hotel Hiroshima, (hereinafter referred to as “The Five HMJ hotels”)), with the hotels which JHR leases to HMJ subsidiaries (Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (main facility of ACTIVE-INTER CITY HIROSHIMA), 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, totaled 14 hotels, are referred to as the “HMJ Group Hotels.” The 24 hotels with variable rent, etc. refers to the HMJ Group Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata. The same shall apply hereinafter.

(Note 3) The Ishin Group Hotels refers to the four hotels comprising the b Suidobashi, the b Ikebukuro, the b Hachioji and the b Hakata. The same shall apply hereinafter.

(c) Funding conditions

In the fiscal year under review (from January 1, 2020 to December 31, 2020), JHR took out loans of ¥4,700 million in total to refinance existing borrowings that were due for repayment in January 2020. Moreover, also for the purpose of refinancing existing borrowings that were due for repayment, JHR took out loans of ¥1,092 million in total in June, ¥11,847 million in total in September, and ¥935 million in December 2020, respectively.

Consequently, as of the end of the fiscal year under review, balance of interest-bearing debt totaled ¥168,754 million, including short-term loans payable of ¥12,782 million, current portion of long-term loans payable of ¥10,800 million, long-term loans payable of ¥103,572 million, current portion of investment corporation bonds of ¥1,500 million and investment corporation bonds of ¥40,100 million, and the ratio of interest-bearing debt to total assets at end of year (Note) stood at 42.2%. The ratio of fixed interest rate debt to the total interest-bearing debt at the end of the fiscal year under review was at 91.0%.

(Note) Ratio of interest-bearing debt to total assets at end of year = Balance of interest-bearing debt at end of year ÷ Total assets at end of year × 100

As of December 31, 2020, JHR’s issuer ratings were as follows.

Japan Credit Rating Agency, Ltd. (JCR) changed the outlook of long-term issuer rating for JHR from “A+ (Stable)” to “A+ (Negative)” on December 25, 2020. Rating and Investment Information, Inc. changed the outlook of issuer rating for JHR from “A (Stable)” to “A (Negative)” on January 5, 2021.

Rating agency	Rating	
Japan Credit Rating Agency, Ltd.	A+	(Negative)
Rating and Investment Information, Inc.	A	(Negative)

(d) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥13,838 million, ¥3,176 million and ¥1,398 million, respectively, for the fiscal year under review (12-month period from January 1, 2020 to December 31, 2020). Net income was ¥1,527 million. With regard to dividends, it was decided that ¥1,829 million will be distributed, which was calculated by adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥305 million to unappropriated retained earnings of ¥1,527 million. Consequently, the dividend per unit came to ¥410. For details of the appropriation for dividends for the fiscal year under review, please refer to “<Reference Information 3> Dividend per unit and appropriation for dividends” on page 18.

(B) Outlook for the next fiscal period

(a) Investment policies and issues to be addressed

It is forecasted that the Japanese economy will remain in a difficult situation for some time under the impact of COVID-19, as the government again declared a state of emergency in January 2021. The domestic accommodation and tourism market is also forecast to remain in a harsh environment due to a continuing significant decrease in the number of inbound visitors as well as a decrease in domestic tourists. Under such circumstances, JHR will discuss, investigate and implement with lessees and operators a variety of measures, such as reducing operating costs through review of operations at each hotel, maintaining necessary employment, handling cash management, and implementing sales measures in response to new demand including “staycation” and “workation.” Especially for the hotels with variable rent, etc. centering on the HMJ Group Hotels, JHR will endeavor to maximize GOP of each hotel and thus maximize the rent JHR can receive as a result.

In addition, it is assumed that JHR will receive requests for rent reduction, etc. from the lessees that have been impacted by the spread of infection of COVID-19, etc.. To cope with such requests, JHR will examine what has been requested from respective lessees, details of the existing lease contracts with them, rent levels compared with the market rent, the possibility to collect the reduced rent portion in the future, and their financial conditions. By doing so, JHR will respond to the requests individually after discussing with each lessee and operator, while carefully considering the possibility of replacing operators.

On the other hand, JHR believes that domestic tourism demand will gradually recover going forward thanks to the development and distribution of vaccinations against COVID-19 and resumption of “Go To Travel” campaign by the government, among other factors. Moreover, given the large potential demand for overseas tourism globally and in particular, improvement in income levels especially in Asian countries as well as the popularity of Japan as travel destination, accommodation demand from inbound visitors to Japan is expected to recover over a medium to long term. As such, there is no change in the view of JHR that the accommodation and tourism market will expand over the medium to long term. On the belief that the location and competitiveness of individual hotels as well as the capabilities of the operators (the ability to differentiate from other hotels, improve profitability including cost management and capture recovering demand, etc.) will lead to differentiation of performance among hotels, JHR will continue to implement strategies to differentiate its hotels as it has done to date.

In the meanwhile, as a result from the spread of COVID-19, the spread of contactless new behavior pattern such as web conferencing, etc. may cause structural changes in hotel industry, for instance, a reduction in banquet demand etc. JHR will work more closely than ever with hotel lessees and operators to respond to environmental changes. Under the recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate hotels owned by JHR in the market by utilizing the experience it has cultivated as a J-REIT specializing in hotel investment, and manage assets based on the approach described below.

Internal growth

JHR will work to secure “stability” mainly with fixed rent contracts, while at the same time aim for “upside potential” through implementation of active asset management strategy, which proactively pursues greater profitability and asset value of its properties by way of a variety of measures such as expanding international brands and coordinating with HMJ.

For properties with fixed rent contracts, JHR will continue to focus on setting and maintaining appropriate rents based on the rent levels in the market where respective hotels are located or each tenant's creditworthiness and ability to bear the rent costs, and aims at raising rents (including introduction of revenue sharing structure) in accordance with the conditions of the accommodation market. For the moment, with possible requests for reduction of fixed rent, etc. from the lessees that were heavily impacted by the spread of infection of COVID-19, JHR intends to appropriately cope with the situation through discussions with respective lessees and operators.

For hotels under variable rent contracts and under a management contract structure, JHR is working to increase variable rent and reduce management fees by implementing the active asset management strategy.

In January 2021, for Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo), JHR conducted rebranding of the property upon the termination of the lease contract. Moreover, for Hotel Keihan Universal City and HOTEL ASCENT FUKUOKA, JHR plans to conduct their rebranding in accordance with the termination and cancellation of the lease contracts. As to rebranding of Hotel Keihan Universal City and HOTEL ASCENT FUKUOKA, inviting the HMJ Group as new lessee, JHR will work to operate them efficiently through such measures as coordination with existing HMJ Group hotels, sharing of management resources with neighboring hotels and utilization of the hotel operation know-how accumulated in the past. By doing so, JHR aims to maximize earnings from them.

i) Properties under variable rent contracts

JHR works to enhance the profitability of its properties under variable rent contracts through its active asset management strategy. JHR has adopted world-leading international brands such as Hilton, Marriott, Sheraton, Mercure and Holiday Inn or leading brands in Japan including Oriental Hotel and Hotel Nikko that are operated in various areas throughout the country and, together with excellent operators, aims to increase variable rent through improved performance of these hotels. JHR coordinates with the operators in an effort to enhance the hotel performances by requesting them to implement marketing initiatives to attract a wider range of demand with considerations given to the recovery of leisure demand from domestic and inbound visitors, measures to maintain and increase room rates, and realization of the synergy effects like cost reductions from owning multiple properties, among other issues.

On the other hand, under the impact of the spread of infection of COVID-19, recovery in hotel performance is expected to take time. To cope with such a situation, JHR will closely cooperate with the lessees and operators of respective hotels to promote drastic reform of the hotel earnings structure through cost-cutting measures centered on thoroughly enhancing efficiency of the operating system, while continuing efforts on health consideration for the guests and employees of respective hotels and environmental sanitation management. JHR will also promote various measures to restore hotel earnings, such as the creation of appropriate products in response to major changes in the market environment and the preparation of hotel facility environments.

Moreover, in an attempt to recover and enhance hotel earnings, JHR will accurately grasp the situation of the accommodation and tourism market and changing customer needs and conduct strategic capital expenditures (CAPEX) in an appropriate manner as needed.

ii) Properties under fixed rent contracts

JHR will pursue efforts to appropriately monitor operating conditions of these hotels and set and maintain reasonable rent levels by paying careful attention to each tenant's ability to bear the rent costs. At the same time, JHR will appropriately respond to requests to reduce fixed rent from the lessees that were greatly affected by the spread of infection of COVID-19. In addition, JHR will carry out investments for the purpose of continuous facility maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and increase the value of its assets.

External growth

In terms of external growth strategy, JHR believes that domestic and inbound leisure demand will recover over the medium to long term and will continue targeting acquisition of highly competitive Real Estate for Hotels, Etc. (Hotel Assets) in areas which can expect "domestic and inbound leisure demand" over the medium to long term as it has done to date. In addition, JHR will build a portfolio which can secure stable revenues and with future growth potential in mind in order to achieve upside.

Upon acquiring properties, JHR will focus on the infrastructure aspects of the relevant Hotel Assets such as buildings and facilities, the services aspects such as the credibility of the hotel lessee and operator (including the ability of the hotel lessee to bear rent costs) as well as operation and management capabilities, and the properties' location superiority that serves as the base for demand stability and growth potential.

Specifically, JHR will target to invest in "full-service hotels" and "resort hotels" that pose barriers to new opening due to such factors as operation and management know-how required for operating the hotels and limitations in terms of invested capital and location. As for "limited-service hotels," JHR emphasizes the credibility and operation capabilities of the hotel lessee and operator as well as the building age, location, guestroom composition and profitability of the properties. Moreover, JHR will take a particularly selective approach to hotels specialized for accommodation, which are categorized as a budget type (low price zone) that mainly offers single rooms and where the source of competitiveness relies only on prices.

In the hotel investment market, the environment continues to be difficult for the hotel operation under the impact of COVID-19, and hotel transactions remain on a stagnant trend due to a sense of uncertainty over the domestic accommodation and tourism market. Under such circumstances, JHR believes that it must be prudent in investigating property acquisitions. Moreover, JHR plans to investigate property dispositions as needed, from the viewpoint of securing its earnings and financial soundness. On the other hand, there is a possibility of an increase in special investment opportunities unlike before, such as sales of assets due to rapid deterioration in the financial position of operators, sales of hotels as non-core assets due to deterioration in main business performance, sales of hotels completed or scheduled to be completed without operators, etc., and JHR will flexibly deal with such investment opportunities by utilizing the efficient hotel operation platform of HMJ. Moreover, over the medium to long term, JHR believes that, along with the spread of COVID-19 coming to an end and accompanying recovery of domestic accommodation demand including that from inbound visitors, many investors who have been on the sideline may resume investment in hotels, and competition over acquisition may become active again. Going forward, while closely monitoring market trends from many angles and responding to changes in hotel earnings structures and the investment environment according to circumstances, JHR will work to acquire highly competitive properties by leveraging its strengths and advantages, as well as utilizing the HMJ platform for certain properties in pursuit of expansion of asset size that accompanies improvement of the portfolio quality.

Finance strategy

Under the basic policy of carrying out conservative financial strategy which places importance on securement of financial stability and soundness, JHR intends to communicate more closely than before with existing financial institutions with which it does business in order to maintain and enhance the relationships of trust, while endeavoring to diversify the means of financing. It aims to conduct financial operations by keeping the ratio of interest-bearing debt to total assets at no larger than 50% as in the past. In addition, when seeking new borrowing for property acquisitions or refinancing existing debt, JHR will work to disperse maturity dates of its debt as well as further reinforce and expand its base of lenders and further diversify funding methods, such as issuance of investment corporation bonds (including green bonds), while considering the balance with the funding costs.

Moreover, while JHR believes that no abrupt change is likely to occur to the interest rate level in the current situation, it aims to maintain and enhance financial stability and soundness in preparation for future change in the financial market environment,

by taking into account the dispersion of maturity dates while working to optimize financing costs and, when necessary, conducting interest rate risk management including interest rate fixation. While being impacted by COVID-19, JHR will work to securely achieve refinancing of existing borrowings by paying attention to financing costs while maintaining good relationships with respective lenders. In addition, JHR will conduct appropriate control of capital expenditures and secure liquidity on hand in an effort to strengthen its financial foundation.

Policy on handling of negative goodwill

From the fiscal year ended December 31, 2017 (18th period), JHR started appropriation for dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to the “Ordinance on Accounting of Investment Corporations” (Cabinet Office Ordinance No. 47 of 2006, as amended; hereinafter referred to as the “Ordinance on Accountings of Investment Corporations”) and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. JHR stipulated a policy to reverse ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the balance of the reserve for temporary difference adjustment for the fiscal year ended December 31, 2017, to pay out as dividends every year, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount (Note 1).

Furthermore, in cases of incurrence of losses caused by property dispositions, impairment loss of assets, dilution of dividend per unit due to the issuance of new investment units through public offerings, etc., loss on retirement of noncurrent assets, and suspension of sales and such due to large-scale renovations with significant impact on revenues, JHR stipulated a policy to reverse additional portion of the negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note 1). As for the fiscal year ending December 31, 2021 (22nd period), JHR expects ¥330 million, which is the total of the 50-year amortization amount of negative goodwill (¥262 million), loss on retirement of noncurrent assets (¥11 million) and amortization of the trademark rights for the Oriental Hotel brand, etc. (Note 2) (¥56 million), as additional amounts to dividends by reversing negative goodwill.

(Note 1) The policy may change due to a resolution of the board of directors, and it does not guarantee the method of reversing the reserve for temporary difference adjustment, and amounts to be reversed, etc., in the future.

(Note 2) JHR acquired the trademark rights on May 15, 2020 as announced in “Notice Concerning Acquisition of New Assets (Trademark Rights of “Oriental Hotel” brand, etc.)” on May 15, 2020. The trademark rights are amortized over 10 years using the straight-line method.

Initiatives for Sustainability

In recent years, there has been growing importance of the risks and opportunities of ESG (Environment, Social and Governance) issues in the investment management industry from the standpoint of long-term sustainability. JHR recognizes that conducting real estate investment management based on consideration for ESG is important to enhance unitholder value and to further raise the attractiveness of JHR. In addition, JHR believes that it is indispensable to establish favorable relationships with its stakeholders including unitholders, hotel users (guests), lessees, operators, business partners including property managers, etc., local communities, officers and employees of the Asset Management Company and others and to fulfill our social responsibilities expected from each of them.

In order to put such ideas into practice, JHR, along with the Asset Management Company, has established a “Sustainability Policy” as guidance to ESG initiatives. We have promoted efforts to reduce environmental impact at properties in our portfolio based on this policy, and received the Building-Housing Energy-efficiency Labeling System (BELS) evaluation for the two properties of Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for J-REIT’s hotel properties (Note 1). In September 2018, JHR became the first J-REIT specializing in hotels to be recognized by GRESB (Note 2) for its environmental awareness and sustainability initiatives, acquiring “Green Star” in the GRESB Real Estate Assessment for the three consecutive years. Moreover, in April 2020, Hilton Tokyo Odaiba acquired CASBEE Certification for Buildings, the first such recognition for an existing hotel property. JHR was also selected for Sector Leader of Asian Hotel Sector in the GRESB Real Estate Assessment conducted in 2020. Going forward, JHR will continue to actively promote enhancement of its initiatives on a variety of sustainability issues.

Furthermore, JHR issued green bonds in July 2019 to allocate funds mainly to refinance loans procured for funding capital expenditures and constructions cost, etc. which contribute to environment, including reduction of CO₂ and water consumption in the renovation work at Oriental Hotel Fukuoka Hakata Station. It was the first case of a J-REIT specializing in hotels issuing green bonds.

In addition, as an effort under the expanding spread of COVID-19, JHR worked together with the lessees to provide two hotels which it owns in Tokyo as facilities to accept patients with mild or no symptoms who do not require hospital treatment among the patients infected with COVID-19.

Recognizing its social responsibility towards local communities as a J-REIT specializing in hotels, JHR will proactively carry out social contribution activities capitalizing on the characteristics of the hotel sector and each hotel.

(Note 1) Investigated by the Asset Management Company based on disclosed information.

(Note 2) GRESB which stands for Global Real Estate Sustainability Benchmark is an annual benchmarking assessment to measure ESG (Environmental, Social and Governance) integration of real estate companies and funds. It evaluates initiatives for sustainability of real estate companies, REITs and real estate funds, not of individual properties. The GRESB Rating makes relative assessment based on total scores, with 5 Stars being the highest ranking.

(b) Significant subsequent events

Not applicable

(c) Operating forecast

The following is JHR's operating forecast for the midterm of the fiscal year ending December 31, 2021 (22nd period) and the full year of the fiscal year ending December 31, 2021 (22nd period). For the assumptions of the operating forecast, please refer to "Assumptions of the operating forecast for the midterm of the fiscal year ending December 31, 2021 (22nd period) and the full year of the fiscal year ending December 31, 2021 (22nd period)" on page 11.

Midterm of the fiscal year ending December 31, 2021 (22nd period)

Operating revenue	¥4,556 million
Operating income	(¥750 million)
Ordinary income	(¥1,636 million)
Midterm net income	(¥1,637 million)

Full year of the fiscal year ending December 31, 2021 (22nd period)

Operating revenue	¥13,920 million
Operating income	¥2,715 million
Ordinary income	¥879 million
Net income	¥877 million
Dividend per unit	¥270
Dividend per unit resulting from excess of earnings	¥-

(Note) The forecast figures above are the current forecasts calculated based on certain assumptions. As such, actual operating revenue, operating income, ordinary income, net income (midterm / full year), dividend per unit and dividend per unit resulting from excess of earnings may vary due to changes in the circumstances. Furthermore, the forecasts are not intended to guarantee any dividend amount.

Assumptions of the operating forecast for the midterm of the fiscal year ending December 31, 2021 (22nd period) and the operating forecast for the fiscal year ending December 2021 (22nd period)

Item	Assumptions			
Calculation Period	<ul style="list-style-type: none"> Midterm of the fiscal year ending December 2021 (22nd Period): January 1, 2021 through June 30, 2021 (181 days) Full fiscal year ending December 2021 (22nd Period): January 1, 2021 through December 31, 2021 (365 days) 			
Assets under Management	<ul style="list-style-type: none"> The 42 properties owned by JHR as of today are assumed. It is assumed that there will be no change (acquisition of new property or disposition of property, etc.) in assets under management through the end of the fiscal year ending December 2021 (22nd period). However, the actual results may fluctuate depending on the changes in assets under management that may take place. 			
Operating Revenue	<ul style="list-style-type: none"> Operating revenue is calculated based on the conditions of the lease and other effective contracts, taking into consideration the competitiveness of hotels, market environment, and other factors. If there are lease contracts with facilities other than hotels, such as commercial facilities and offices, operating revenue calculated based on the said lease contracts is included. It may fluctuate significantly due to the impact of COVID-19. Rents, etc. of the main hotels are calculated based on the following assumptions. (1) The HMJ Group Hotels JHR concluded a memorandum of understanding for the fixed-term building lease contract with the HMJ Group Hotels on August 25, 2020. From January 1, 2021 through December 31, 2021, the rent is only variable rent and is calculated by multiplying the hotel AGOP (*1) by the variable rent ratio for each hotel. However, if AGOP is less than 0 (zero), the variable rent will be 0 (zero). 			
	(Unit: millions of yen)			
			Hotel AGOP	Variable rent ratio
				Variable rent
	Kobe Meriken Park Oriental Hotel	Midterm	(0)	—
		Full year	482	414
	Oriental Hotel tokyo bay	Midterm	(54)	—
		Full year	626	495
	Namba Oriental Hotel	Midterm	166	151
		Full year	642	584
	Hotel Nikko Alivila	Midterm	161	119
		Full year	1,382	1,022
	Oriental Hotel Hiroshima	Midterm	(41)	—
		Full year	116	103
	Okinawa Marriott Resort & Spa	Midterm	(132)	—
		Full year	402	358
	Sheraton Grand Hiroshima Hotel (*2)	Midterm	117	108
		Full year	396	368
	Oriental Hotel Fukuoka Hakata Station	Midterm	75	73
		Full year	402	389
	Holiday Inn Osaka Namba (*3)	Midterm	(17)	—
		Full year	(33)	—
	Hilton Tokyo Narita Airport	Midterm	(62)	—
		Full year	348	330
	International Garden Hotel Narita	Midterm	(3)	—
		Full year	189	179
	Hotel Nikko Nara	Midterm	(60)	—
		Full year	124	117
	Hotel Oriental Express Osaka Shinsaibashi (*3)	Midterm	(19)	—
		Full year	(41)	—

Item	Assumptions				
Operating Revenue			Hotel AOP	Variable rent ratio	Variable rent
	Hilton Tokyo Odaiba	Midterm	(105)	97.0%	—
		Full year	1,034		1,003
	Total	Midterm	22	—	453
		Full year	6,073		5,370
	(*1) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. GOP (gross operating profit) and GOL (gross operating loss) are the remainder after expenses incurred in hotel operation, such as personnel costs and general and administrative expenses, etc., are deducted from total sales. The same shall apply hereinafter				
	(*2) Stating the rent for Sheraton Grand Hiroshima Hotel, the major facility of ACTIVE-INTER CITY HIROSHIMA. Fixed rent and variable rent for office and commercial tenants of ACTIVE-INTER CITY HIROSHIMA are as follows.				
	(Unit: millions of yen)				
		Variable rent	Fixed rent	Total rent	
	Midterm	3	240	244	
	Full year	7	476	483	
(*3) It is assumed that Holiday Inn Osaka Namba and Hotel Oriental Express Osaka Shinsaibashi are closed throughout the year.					
(2) Hotel Ascent Fukuoka and Hotel Keihan Univesal City Hotel Ascent Fukuoka and Hotel Keihan Univesal City are planned to be rebranded with HMJ subsidiaries as the lessees on June 18, 2021 and July 1, 2021, respectively. The assumptions for fixed and variable rent stipulated in the fixed-term building contract after rebranding concluded on February 12, 2021 are as follows. The starting date of the variable rent is January 1, 2022, and the variable rent is not expected in the fiscal year ending December 2021.					
<Hotel Ascent Fukuoka (name after rebranding: Hotel Orinetal Express Fukuoka Tenjin)> Lease term: June 18, 2021 to December 31, 2031 Total rent = Fixed rent + Variable rent Fixed rent = ¥150 million (annual) Fixed rent is waived from June 18, 2021 through June 30, 2022. The fixed rent to be recognized for the fiscal year ending December 2021 is expected to be ¥72 million, which is 6.4 months' worth of the average fixed rent of ¥11 million per month, divided proportionally by the total fixed rent of the whole lease period of ¥1,425 million.					
Variable rent = [Hotel AGOP – AGOP base amount of ¥165 million] × Variable rent ratio (97.0%)					
<Hotel Keihan Universal City (name after rebranding: undecided)> Lease term: July 1, 2021 to December 31, 2031 Total rent = Fixed rent + Variable rent Fixed rent = ¥350 million (annual) Fixed rent is waived from July 1, 2021 through June 30, 2022. The fixed rent to be recognized for the fiscal year ending December 2021 is expected to be ¥158 million, which is 6 months' worth of the average fixed rent of ¥26 million per month, divided proportionally by the total fixed rent of the whole lease period of ¥3,325 million.					
Variable rent = [Hotel AGOP – AGOP base amount of ¥370 million] × Variable rent ratio (95.0%)					
(*4) For Hotel Ascent Fukuoka and Hotel Keihan Universal City, the variable rents from the current lessees before rebranding are not expected.					

Item	Assumptions		
Operating Revenue	(3) Income from management contracts (*5) and variable rent from other hotels with variable rent, etc.		
	(Unit: millions of yen)		
		Midterm	Full year
	ibis Tokyo Shinjuku (*5)	2	90
	ibis Styles Kyoto Station (*5)	(1)	52
	ibis Styles Sapporo (*5)	33	228
	Mercure Sapporo (*5)	(6)	224
	Mercure Okinawa Naha (*5)	44	99
	Mercure Yokosuka	75	101
	the b suidobashi (*6)	—	—
	the b ikebukuro (*6)	43	59
	the b hachioji (*6)	—	—
	the b hakata (*6)	—	—
	Comfort Hotel Tokyo Higashi Nihombashi	—	—
	Smile Hotel Nihombashi Mitsukoshimae	—	—
	Chisun Hotel Kamata (*7)	13	38
	Chisun Inn Kamata	7	19
	Hilton Tokyo Bay	Undisclosed (*8)	Undisclosed (*8)
	Hilton Nagoya	Undisclosed (*8)	Undisclosed (*8)
	Total	365	1,265
	(*5) For income from management contracts, it is assumed that each hotel’s GOP amount is recognized as income from management contracts, and the management contract fees to be paid by JHR are recognized as an operating expense. If the performance for the midterm period is expected to be GOL, it is recognized as minus in the income from management contracts.		
	(*6) The variable rent for the Ishin Group Hotels is the sum of fixed and variable rent from January 1, 2021 through December 31, 2021 due to the fixed-term building lease contract concluded on October 30, 2020, and the variable rent is recognized when GOP reaches the certain levels.		
	(*7) Hotel Vista Kamata Tokyo was rebranded to Chisun Hotel Kamata with Solare Hotels and Resorts Co., Ltd. as the lessee on January 1, 2021.		
	(*8) Undisclosed since tenants that concluded lease contracts did not agree to disclose rent revenue, etc.		
	• The following is the breakdown of variable rent and income from management contracts		
	(Unit: millions of yen)		
		Midterm	Full year
The HMJ Group Hotels	453	5,370	
Office and commercial tenants (*9)	3	7	
Other hotels with variable rent, etc. (16 hotels)	365	1,265	
Total (30 hotels)	821	6,642	
(*9) Variable rent for office and commercial tenants of ACTIVE-INTER CITY HIROSHIMA is shown.			
(*10) For details of variable rent, please refer to page 51, “3. Reference Information; (1) Information on values of assets under management, etc. (ii) Assets under management; (C) Other major assets under management; C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing” below.			

Item	Assumptions																
Operating Expenses	<ul style="list-style-type: none"> ¥250 million is assumed as the risk of rent reduction, considering the possibility of the impact on operating revenue by rent reductions due to the impact of COVID-19. With respect to real estate leasing expenses, which constitute a major part of the operating expenses, expenses other than depreciation are calculated based on historical data, and variable factors are reflected in the calculation. It is assumed that ¥1,994 million will be recognized as expenses for fixed asset taxes, city planning taxes, etc. In general, fixed asset tax and city planning tax and other taxes and public dues on acquired assets are settled with the previous owners at the time of acquisition, calculated on a pro rata basis of the holding period. For JHR, such settlement amount is included in the acquisition price, and it will not be recognized as expenses for the calculation period. Capital expenditure is assumed to be ¥3,522 million (¥2,259 million for capital expenditure I, ¥1,263 million for capital expenditure II). Capital expenditure III is not planned for the fiscal year ending December 2021. (*) JHR classifies capital expenditures into the following three categories. (I) Capital investment related to renewal of equipment and facilities of buildings which is required to maintain proper values of properties, (II) capital investment for fixtures, furniture and equipment that are not directly related to building structure or facilities but necessary for operating hotels, and (III) strategic capital investment such as renovating guest rooms, etc. for improving the competitiveness of the hotels. Depreciation is calculated using the straight-line method including the planned capital expenditures above, and is assumed to be ¥4,813 million. Repair expenses for buildings are recognized as expenses in the assumed amount necessary for each operating period. Please note that the repair expenses of each operating period may differ materially from the forecast amount for various reasons, such as; (1) Emergency repair expenses may be necessary due to damage to buildings from unexpected causes; (2) The amount of repair expenses generally tends to increase in difference over time; and (3) Repair expenses are not required on a regular basis. 																
Non-operating Expenses	<ul style="list-style-type: none"> ¥1,836 million is expected for borrowing-related costs, including interest expense, amortization for financing fee and arrangement fee, and other non-operating expenses. Expenses for issuance of new investment units and secondary offering are amortized over a period of three years by the straight-line method. 																
Interest-bearing Debt	<ul style="list-style-type: none"> The balance of interest-bearing debt (sum of loans and investment corporation bonds) as of the end of December 2020 was ¥168,754 million and is assumed to be ¥168,754 million as of the end of December 2021. There are ¥23,582 million of loans due during the fiscal year ending December 2021 (22nd Period), however, it is assumed that the entire amount will be refinanced. There are ¥1,500 million of investment corporation bonds that mature during the fiscal year ending December 2021 (22nd Period), however, it is assumed that the same amount of investment corporation bonds will be issued. 																
Dividend per Unit	<ul style="list-style-type: none"> Dividend per unit for the fiscal year ending December 2021 (22nd period) is calculated based on the following assumptions. <table> <tr> <td>Net income</td><td>¥877 million</td></tr> <tr> <td>Reversal of reserve for temporary difference adjustment (negative goodwill)</td><td></td></tr> <tr> <td> 50-year amortization amount of negative goodwill (*1)</td><td>¥262 million</td></tr> <tr> <td> Loss on retirement of noncurrent assets (*2)</td><td>¥11 million</td></tr> <tr> <td> Amortization of trademark rights (*3)</td><td>¥56 million</td></tr> <tr> <td>Distributable amount</td><td>¥1,208 million</td></tr> <tr> <td>Total number of investment units issued</td><td>4,462,347 units</td></tr> <tr> <td>Dividend per unit</td><td>¥270</td></tr> </table> <ul style="list-style-type: none"> (*1) ¥262 million (hereinafter called “50-year amortization amount of negative goodwill”) is scheduled to be paid out as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every fiscal year. (*2) The amount recognized as a loss on retirement of noncurrent assets will be appropriated by reserve for temporary difference adjustment (negative goodwill) and is expected to have no impact on dividend per unit. (*3) The trademark rights are amortized over 10 years using the straight-line method. Amortization is expected to be recognized during the current fiscal year will be appropriated by reserve for temporary difference adjustment (negative goodwill) and is expected to have no impact on dividend per unit. 	Net income	¥877 million	Reversal of reserve for temporary difference adjustment (negative goodwill)		50-year amortization amount of negative goodwill (*1)	¥262 million	Loss on retirement of noncurrent assets (*2)	¥11 million	Amortization of trademark rights (*3)	¥56 million	Distributable amount	¥1,208 million	Total number of investment units issued	4,462,347 units	Dividend per unit	¥270
Net income	¥877 million																
Reversal of reserve for temporary difference adjustment (negative goodwill)																	
50-year amortization amount of negative goodwill (*1)	¥262 million																
Loss on retirement of noncurrent assets (*2)	¥11 million																
Amortization of trademark rights (*3)	¥56 million																
Distributable amount	¥1,208 million																
Total number of investment units issued	4,462,347 units																
Dividend per unit	¥270																

Item	Assumptions
	<ul style="list-style-type: none"> Dividend per unit may fluctuate due to various causes, such as fluctuation of rent revenue resulting from transfer of assets under management, change of tenants, etc. at hotels, change in the business environment of hotel business for hotel tenants, etc., unexpected repairs, and actual number of new investment units issued, etc. The remaining balance of the reserve for temporary difference adjustment (negative goodwill) after the appropriation of the reserve for temporary difference adjustment (negative goodwill) for dividends for the fiscal year ending December 2021 (22nd period) is expected to be ¥9,981 million.
Dividend per Unit Resulting from Excess of Earnings	<ul style="list-style-type: none"> It is assumed that the excess of earnings (dividend per unit resulting from excess of earnings) will not be distributed.
Others	<ul style="list-style-type: none"> It is assumed that revision in law, tax system, accounting standard, regulations of the listing, and regulations of the Investment Trusts Association, Japan that may impact the forecast above will not be made. It is assumed that unexpected major incident will not occur in the general economy, real estate market and hotel business environment, etc. The numerical values are rounded down to the nearest millions of yen in the assumptions above.

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

The following is the comparison and the major factors causing the variance between the operating results and dividend for the full fiscal year ended December 2020 (January 1, 2020 through December 31, 2020) and the operating forecast and forecast of dividend for the full fiscal year ending December 2021.

(Unit: millions of yen)

		Fiscal Year Ended December 2020 (21st Period)		Fiscal Year Ending December 2021 (22nd Period)	Comparison with Previous Period (B)-(A) %	Sale of Property (*2)	Existing Property	Major Factors Causing the Variance
		Results (A)	(Reference) Annualized Results (*1)	Forecast This Time (B)				
Properties	No. of Properties	42	42	42	-	-	-	
	Acquisition Price	343,038	343,038	343,038	-	-	-	
Profit and Loss Statement	Operating Revenue	13,838	10,243	13,920	82	0.6%	(3,390)	3,472
	Real Estate Operating Revenue	10,495	10,243	13,920	3,425	32.6%	(232)	3,657
	Fixed Rent	7,640	7,491	6,345	(1,294)	(16.9%)	(149)	(1,145)
	Composition	72.8%	73.1%	45.6%				1) Decrease in fixed rent of the HMJ Group Hotels by JPY794 MM 2) Decrease in fixed rent of the Ishin Group Hotels by JPY7 MM 3) Decrease in fixed rent of Chisun Hotel Kamata by 93 MM (*3) 4) Decrease in fixed rent due to the change in lease scheme accompanying by rebranding by JPY172 MM (*4) 5) Decrease in fixed rent in tenants other than hotels by JPY78 MM
	Other Rent	892	854	932	40	4.6%	(16)	57
	Composition	8.5%	8.3%	6.7%				
	Variable Rent	1,963	1,896	6,642	4,679	238.3%	(66)	4,745
	Composition	18.7%	18.5%	47.7%				1) Increase in variable rent of the HMJ Group Hotels by JPY4,319 MM 2) Increase in variable rent, etc. of the Accor Group Hotels (*5) by JPY659 MM 3) Decrease in variable rent of the Ishin Group Hotels by JPY181MM 4) Increase in variable rent of Chisun hotel Kamata by JPY38 MM (*3) 5) Decrease in variable rent of other hotels by JPY89MM
	Gain on Sale of Properties, etc.	3,343	-	-	(3,343)	-	(3,158)	(184)
	NOI (*6)	6,547	6,267	9,455	2,907	44.4%	(200)	3,107
	NOI Yield	6.4%	1.7%	2.6%	0.8%			
	NOI after Depreciation (*6)	1,778	1,496	4,628	2,849	160.3%	(187)	3,037
	NOI Yield after Depreciation	5.1%	0.4%	1.3%	0.8%			
Dividend	Operating Income	3,176	(428)	2,715	(460)	(14.5%)		
	Ordinary Income	1,398	(2,205)	879	(519)	(37.1%)		
	Net Income	1,527	(2,207)	877	(649)	(42.5%)		
	Reversed Amount of the Reserve for Temporary Difference Adjustment (Negative Goodwill)	305	324	330	24	8.1%		Reversed Amount of the Reserve for Temporary Difference Adjustment (*7) 2020: 50-year negative goodwill amortization: JPY262 MM, Loss on retirement of noncurrent assets: JPY5 MM, Amortization of trademark rights: JPY37 MM 2021: 50-year negative goodwill amortization: JPY262 MM, Loss on retirement of noncurrent assets: JPY11 MM, Amortization of trademark rights: JPY56 MM
	Total Dividends	1,829	-	1,204	(624)	(34.1%)		
	Number of Units Issued (Unit)	4,462,347	4,462,347	4,462,347	-	-		
	Dividend per Unit (JPY)	410	-	270	(140)	(34.1%)		

(*1) The assumptions of the annualized effect for the result are as follows.

- 1) It is assumed that Sotetsu Fresa Inn Shimbashi-Karasumoriguchi sold on July 1, 2020, will not be held throughout the year and that there will be no gain on sale of real estate properties.
- 2) The full-year effect of the exchange of a part of the site of Hotel Ascent Fukuoka is assumed. A gain of exchange of real estate, etc. and extraordinary income by the acknowledgement of a claim for refund of the security deposit, which had not been recorded as security deposit are not assumed.
- 3) Fixed asset tax, city planning tax, etc. for Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba acquired in the fiscal year ended December 2019 (20th period) are assumed to be ¥337 million (for 12 months).
- 4) The trademark rights are assumed to be held throughout the year and will be amortized over 10 years using the straight-line method. Annualized amortization is assumed to be ¥56 million and is appropriated by reserve for temporary difference adjustment (negative goodwill).

(*2) Stating the amount of impact of sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi, which was sold on July 1, 2020.

(*3) Hotel Vista Kamata Tokyo was rebranded to Chisun Hotel Kamata with Solare Hotels and Resorts Co., Ltd. as the lessee on January 1, 2021. No fixed rent is posted due to a new fixed-term building lease contract, which resulted in a rent structure with only variable rent effective January 1, 2021.

(*4) Hotel Ascent Fukuoka and Hotel Keihan Universal City are planned to be rebranded with HMJ subsidiaries as the lessees on June 18, 2021 and July 1, 2021, respectively. For the rent for the fiscal year ending December 2021 (22nd Period) after rebranding, please refer to "Assumptions of the operating forecast for the midterm of the fiscal year ending December 2021 (22nd period) and the operating forecast for the full year of the fiscal year ending December 2021 (22nd period)" above.

(*5) Accor Group Hotels refers to 6 hotels: ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka. The same shall apply hereinafter.

(*6) Each is calculated using the following formula. The same shall apply hereinafter.

NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses

NOI yield = NOI ÷ acquisition price

NOI after depreciation = Real estate operating revenue – Real estate operating costs

NOI yield after depreciation = NOI after depreciation ÷ acquisition price

- (*7) For the details of the reversed amount of the reserve for temporary difference adjustment, please refer to “Assumptions of the operating forecast for the midterm of the fiscal year ending December 2021 (22nd period) and the operating forecast for the full year of the fiscal year ending December 2021 (22nd period)” above.

<Reference Information 2> Hotel operation indexes, sales and GOP

The numeral figures are based on figures obtained from hotel lessees, etc. Please note that these figures have not been audited or gone through other procedures. No guarantee is made as to the accuracy or completeness of the figures and information.

ADR and RevPAR are rounded off to the nearest yen. Sales and GOP are rounded off to the nearest millions of yen. Occupancy rate and comparison with the previous period are rounded off to one decimal place.

<1> The 24 Hotels with Variable Rent, etc.

		Fiscal year ended December 2020		Fiscal year ending December 2021	
		Results	Comparison with previous period	Forecast this time	Comparison with previous period
Occupancy Rate	First half of the year	34.0%	(51.1pt)	39.4%	5.4pt
	Second half of the year	40.8%	(46.1pt)	68.8%	28.1pt
	Full year	37.4%	(48.6pt)	54.2%	16.8pt
ADR (*2)	First half of the year	13,362	(14.8%)	12,368	(7.4%)
	Second half of the year	13,354	(22.6%)	16,398	22.8%
	Full year	13,357	(19.0%)	14,947	11.9%
RevPAR (*3)	First half of the year	4,536	(66.0%)	4,868	7.3%
	Second half of the year	5,445	(63.7%)	11,289	107.3%
	Full year	4,993	(64.8%)	8,105	62.3%
Sales (JPY1M)	First half of the year	10,718	(62.1%)	11,010	3.2%
	Second half of the year	13,378	(57.5%)	23,455	91.4%
	Full year	24,096	(59.6%)	34,466	50.3%
GOP (JPY1M)	First half of the year	(213)	(102.4%)	277	—%
	Second half of the year	1,867	(84.2%)	7,046	277.4%
	Full year	1,654	(92.1%)	7,323	342.9%

- (*1) ADR: Represents average daily rate, which is calculated by dividing revenue of the rooms department for a given period (including service charges) by the total number of rooms sold during the period. The same shall apply hereinafter.
- (*2) RevPAR represents revenue per available room, which is calculated by dividing total room revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

<2>The HMJ Group Hotels

		Fiscal year ended December 2020		Fiscal year ending December 2021	
		Results	Comparison with previous period	Forecast this time	Comparison with previous period
Occupancy Rate	First half of the year	33.1%	(52.2pt)	36.4%	3.3pt
	Second half of the year	38.4%	(49.5pt)	68.3%	29.9pt
	Full year	35.8%	(50.8pt)	52.5%	16.7pt
ADR	First half of the year	15,222	(13.4%)	14,906	(2.1%)
	Second half of the year	16,814	(14.4%)	19,590	16.5%
	Full year	16,081	(13.7%)	17,979	11.8%
RevPAR	First half of the year	5,045	(66.4%)	5,428	7.6%
	Second half of the year	6,460	(62.6%)	13,379	107.1%
	Full year	5,757	(64.3%)	9,436	63.9%
Sales (JPY1M)	First half of the year	9,167	(61.9%)	9,443	3.5%
	Second half of the year	11,978	(55.9%)	20,624	81.6%
	Full year	21,146	(58.7%)	30,067	47.7%
GOP (JPY1M)	First half of the year	(370)	(105.1%)	113	—%
	Second half of the year	1,696	(82.8%)	6,280	270.3%
	Full year	1,326	(92.3%)	6,393	382.2%

<Reference Information 3> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal year ended December 31, 2019 and the fiscal year ended December 31, 2020 are calculated based on the following assumptions.

	Fiscal year ended December 31, 2019 (JPY1M)	Fiscal year ended December 31, 2020 (JPY1M)
Unappropriated retained earnings	15,290	1,527
Total of reserve for temporary difference adjustment (negative goodwill) used	1,176	305
50-year amortization amount of negative goodwill	262	262
Loss on retirement of noncurrent assets	246	5
Correspondence to large-scale renovation works (*1)	357	—
Adjustment for dilution (*2)	310	—
Amortization of trademark rights	—	37
Total dividends	16,466	1,829
Total number of investment units issued	4,462,347 units	4,462,347 units
Dividend per unit	¥3,690	¥410

(*1) Oriental Hotel Fukuoka Hakata Station implemented large-scale renovation works accompanied by suspension of hotel operation from October 1, 2018 to April 8, 2019. Taking into consideration the impact on dividend by the suspension of hotel operation due to the renovation, reserve for temporary difference adjustment (negative goodwill) is appropriated.

(*2) Adjustment for dilution of dividend per unit due to issuance of new investment units.

(2) Material events related to going concern assumption

In the fiscal year under review, the hotel market conditions deteriorated sharply due to the impact by the spread of the infection of COVID-19. JHR recorded a significant year-on-year decrease in revenues and profits since JHR granted exemption of fixed rent or changed the variable rent structure for certain tenants including HMJ Group and other factors. As the result, debt-service coverage ratio, which designated in the loan-related contracts with the financial institutions which JHR conducts business with, fell below the predetermined reference value. Since such financial situation caused temporary breach of financial covenants, there is condition that may cause substantial doubts on going concern. However, JHR has been agreed with the financial institutions that such financial situation is not considered as a breach of the financial covenants. In case in which the debt-service coverage ratio is lower than the predetermined reference value in the midterm period of the coming fiscal year and thereafter, JHR may breach the financial covenants.

Still, JHR believes that there is no material uncertainty regarding the going concern assumption due to consideration of good relationships between JHR and financial institutions which JHR conducts business with, continuing support from sponsor related entities, the sufficient amount of cash it has on hand and conservative debt ratio, etc.

2. Financial statements

(1) Balance sheets

(thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Assets		
Current assets		
Cash and deposits	22,449,911	19,382,019
Cash and deposits in trust	11,894,019	9,171,145
Operating accounts receivable	2,779,730	672,415
Prepaid expenses	550,281	533,150
Income taxes receivable	54	42
Derivative assets	573	—
Other current assets	88,045	82,698
Total current assets	37,762,616	29,841,471
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	579,731	622,365
Accumulated depreciation	(195,551)	(252,877)
Machinery and equipment, net	384,180	369,487
Tools, furniture and fixtures	4,211,971	4,373,456
Accumulated depreciation	(2,102,782)	(2,739,679)
Tools, furniture and fixtures, net	2,109,188	1,633,776
Construction in progress	—	2,761
Buildings in trust	*1 136,930,501	*1 137,193,115
Accumulated depreciation	(21,656,979)	(25,172,139)
Buildings in trust, net	115,273,521	112,020,975
Structures in trust	2,721,962	2,772,035
Accumulated depreciation	(438,160)	(511,004)
Structures in trust, net	2,283,802	2,261,030
Machinery and equipment in trust	675,362	683,995
Accumulated depreciation	(154,739)	(183,954)
Machinery and equipment in trust, net	520,622	500,040
Tools, furniture and fixtures in trust	136,526	133,628
Accumulated depreciation	(104,535)	(112,061)
Tools, furniture and fixtures in trust, net	31,990	21,566
Land in trust	219,901,119	216,410,533
Construction in progress in trust	18,384	83,507
Net property and equipment	340,522,811	333,303,679
Intangible assets		
Software	227,600	162,441
Trademark right	—	523,498
Leasehold rights in trust	28,532,362	28,532,362
Fixed-term leasehold rights in trust	5,036,941	4,765,994
Other intangible assets	7,756	7,076
Total intangible assets	33,804,661	33,991,374
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,766,474	2,449,539
Derivative assets	43,870	—
Reserve for repairs and maintenance	307,513	314,067
Total investments and other assets	3,280,602	2,926,350
Total noncurrent assets	377,608,075	370,221,403
Deferred assets		
Investment unit issuance costs	140,631	56,111
Investment corporation bond issuance costs	211,194	177,418
Total deferred assets	351,826	233,529
Total assets	415,722,517	400,296,404

(thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Liabilities		
Current liabilities		
Operating accounts payable	1,485,375	2,654,679
Short-term loans payable	—	12,782,000
Current portion of investment corporation bonds	—	1,500,000
Current portion of long-term loans payable	12,782,000	10,800,000
Accrued expenses	651,435	527,572
Income taxes payable	1,210	1,210
Consumption taxes payable	661,048	143,389
Advances received	909,293	423,355
Dividends payable	15,852	17,381
Deposits received	8,696	9,111
Derivative liabilities	17,229	21,398
Other current liabilities	95,331	42,763
Total current liabilities	16,627,473	28,922,861
Long-term liabilities		
Investment corporation bonds	41,600,000	40,100,000
Long-term loans payable	114,372,000	103,572,000
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,681,825	4,356,804
Derivative liabilities	416,600	767,749
Deferred tax liabilities	13,981	—
Asset retirement obligations	447,677	335,161
Total long-term liabilities	162,572,605	150,172,234
Total liabilities	179,200,079	179,095,095
Net assets		
Unitholders' equity		
Unitholders' capital	186,894,169	186,894,169
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 11,794,071	*2 10,617,580
Reserve for tax purpose reduction entry	—	1,174,860
Reserve for special account for tax purpose reduction entry	1,174,860	—
Total voluntary reserve	12,968,932	11,792,441
Unappropriated retained earnings (undisposed loss)	15,290,314	1,527,790
Total surplus	50,005,645	35,066,630
Total unitholders' equity	236,899,815	221,960,800
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(377,376)	(759,492)
Total valuation and translation adjustments	(377,376)	(759,492)
Total net assets	*3 236,522,438	*3 221,201,308
Total liabilities and net assets	415,722,517	400,296,404

(2) Statements of income

(thousands of yen)

	For the year ended December 31, 2019	For the year ended December 31, 2020
Operating revenue		
Real estate operating revenue	*1 27,107,988	*1 9,603,724
Other real estate operating revenue	*1 1,170,561	*1 892,001
Gain on sales of real estate properties	—	*2 3,158,381
Gain on exchange of real estate properties	—	*3 184,725
Total operating revenue	28,278,550	13,838,832
Operating expenses		
Real estate operating costs	*1 8,997,408	*1 8,717,332
Asset management fee	1,781,691	1,479,381
Asset custody and Administrative service fee	119,138	125,986
Directors' compensation	14,400	17,400
Other operating expenses	217,357	322,710
Total operating expenses	11,129,995	10,662,810
Operating income	17,148,555	3,176,022
Non-operating income		
Interest income	357	278
Gain on forfeiture of unclaimed dividends	4,361	3,535
Gain on insurance claims	28,063	34,217
Refunded fixed asset tax	1,239	—
Interest on tax refunds	549	95
Gain on derivative instruments	12,382	1,138
Total non-operating income	46,953	39,266
Non-operating expenses		
Interest expense	940,789	963,502
Interest expense on investment corporation bonds	284,524	316,795
Borrowing costs	483,761	399,645
Amortization of investment corporation bond issuance costs	30,298	33,776
Amortization of investment unit issuance costs	151,922	84,520
Loss on derivative instruments	378	4,802
Other	12,309	13,989
Total non-operating expenses	1,903,983	1,817,032
Ordinary income	15,291,524	1,398,255
Extraordinary income		
Gain from collection of security deposits	—	130,000
Total extraordinary income	—	130,000
Income before income taxes	15,291,524	1,528,255
Income taxes – current	1,210	1,210
Total income taxes	1,210	1,210
Net income	15,290,314	1,527,045
Retained earnings brought forward	—	744
Unappropriated retained earnings (undisposed loss)	15,290,314	1,527,790

(3) Statements of changes in net assets

For the year ended December 31, 2019

(thousands of yen)

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						Total unitholders' equity
		Capital surplus	Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustment	Reserve for special account for tax purpose reduction entry	Total voluntary reserve			
Balance, January 1, 2019	153,516,129	21,746,398	12,357,644	-	12,357,644	16,213,482	50,317,525	203,833,655
Changes of items during the year:								
Issuance of new investment units	33,378,040							33,378,040
Reversal of reserve for temporary difference adjustment			(563,572)		(563,572)	563,572	—	—
Provision of reserve for special account for tax purpose reduction entry				1,174,860	1,174,860	(1,174,860)	—	—
Dividends paid						(15,602,194)	(15,602,194)	(15,602,194)
Net income						15,290,314	15,290,314	15,290,314
Net changes of items other than unitholders' equity								
Total changes of items during the year	33,378,040	—	(563,572)	1,174,860	611,287	(923,168)	(311,880)	33,066,160
Balance, December 31, 2019	186,894,169 ^{*1}	21,746,398	11,794,071	1,174,860	12,968,932	15,290,314	50,005,645	236,899,815

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2019	(461,435)	(461,435)	203,372,219
Changes of items during the year:			
Issuance of new investment units			33,378,040
Reversal of reserve for temporary difference adjustment			—
Provision of reserve for special account for tax purpose reduction entry			—
Dividends paid			(15,602,194)
Net income			15,290,314
Net changes of items other than unitholders' equity	84,059	84,059	84,059
Total changes of items during the year	84,059	84,059	33,150,219
Balance, December 31, 2019	(377,376)	(377,376)	236,522,438

For the year ended December 31, 2020

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						
		Capital surplus	Reserve for temporary difference adjustment	Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus
				Reserve for tax purpose reduction entry	Reserve for special account for tax purpose reduction entry	Total voluntary reserve		
Balance, January 1, 2020	186,894,169	21,746,398	11,794,071	—	1,174,860	12,968,932	15,290,314	50,005,645
Changes of items during the year:								
Reversal of reserve for temporary difference adjustment			(1,176,490)			(1,176,490)	1,176,490	—
Provision of reserve for tax purpose reduction entry				1,174,860		1,174,860	(1,174,860)	—
Reversal of reserve for special account for tax purpose reduction entry					(1,174,860)	(1,174,860)	1,174,860	—
Dividends paid							(16,466,060)	(16,466,060)
Net income							1,527,045	1,527,045
Net changes of items other than unitholders' equity								
Total changes of items during the year	—	—	(1,176,490)	1,174,860	(1,174,860)	(1,176,490)	(13,762,523)	(14,939,014)
Balance, December 31, 2020	^{*1} 186,894,169	21,746,398	10,617,580	1,174,860	—	11,792,441	1,527,790	35,066,630

(thousands of yen)

	Unitholders' equity	Valuation and translation adjustments		Total net assets
	Total unitholders' equity	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2020	236,899,815	(377,376)	(377,376)	236,522,438
Changes of items during the year:				
Reversal of reserve for temporary difference adjustment	—			—
Provision of reserve for tax purpose reduction entry	—			—
Reversal of reserve for special account for tax purpose reduction entry	—			—
Dividends paid	(16,466,060)			(16,466,060)
Net income	1,527,045			1,527,045
Net changes of items other than unitholders' equity		(382,115)	(382,115)	(382,115)
Total changes of items during the year	(14,939,014)	(382,115)	(382,115)	(15,321,130)
Balance, December 31, 2020	221,960,800	(759,492)	(759,492)	221,201,308

(4) Statements of cash dividends

Classification	For the year ended December 31, 2019	For the year ended December 31, 2020
I. Unappropriated retained earnings	¥15,290,314,375	¥1,527,790,689
II. Reversal of voluntary reserve		
Reversal of reserve for temporary difference adjustment	*1 ¥1,176,490,844	*1 ¥305,694,382
Reversal of reserve for special advanced depreciation	¥1,174,860,958	—
III. Dividends	¥16,466,060,430	¥1,829,562,270
[Dividend per unit]	[¥3,690]	[¥410]
IV. Voluntary reserve		
Provision of reserve for advanced depreciation	¥1,174,860,958	—
V. Retained earnings carried forward	¥744,789	¥3,922,801
Method of calculating the amount of dividends	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥16,466,060,430, which excludes fractions of less than one yen of dividend per unit from ¥16,466,805,219, an amount calculated by adding a reversal of reserve for temporary difference adjustment of ¥1,176,490,844 to unappropriated retained earnings of ¥15,290,314,375, would all be distributed. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.	In accordance with the monetary distribution policy stipulated in Article 34, paragraph 1 of JHR's Articles of Incorporation, amount of dividend must exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation. It was decided that ¥1,829,562,270, which excludes fractions of less than one yen of dividend per unit from ¥1,833,485,071, an amount calculated by adding a reversal of reserve for temporary difference adjustment of ¥305,694,382 to unappropriated retained earnings of ¥1,527,790,689, would all be distributed. The monetary distribution in excess of earnings stipulated in Article 34, paragraph 1 (4) of JHR's Articles of Incorporation will not be made.

(5) Statements of cash flows

(thousands of yen)

	For the year ended December 31, 2019	For the year ended December 31, 2020
Cash flows from operating activities		
Income before income taxes	15,291,524	1,528,255
Depreciation and amortization	4,557,414	4,761,907
Gain on exchange of real estate properties	—	(184,725)
Loss on retirement of noncurrent assets	246,890	5,701
Loss (Profit) on derivative instruments	(12,004)	3,663
Amortization of investment corporation bond issuance costs	30,298	33,776
Amortization of investment unit issuance costs	151,922	84,520
Decrease in property and equipment due to sale	—	1,010
Decrease in property and equipment in trust due to sale	—	4,789,585
Proceeds from refund of guarantee deposits	—	(130,000)
Interest income	(357)	(278)
Interest expense	1,225,314	1,280,297
Interest on tax refunds	(549)	(95)
(Increase) decrease in operating accounts receivable	(305,608)	2,107,315
(Increase) decrease in prepaid expenses	(22,789)	17,130
(Increase) decrease in long-term prepaid expenses	(78,478)	316,935
Increase (decrease) in operating accounts payable	(240,644)	1,693,683
Increase (decrease) in accrued expenses	116,600	(124,063)
Increase (decrease) in consumption taxes payable	164,127	(517,659)
Increase (decrease) in advances received	27,240	(485,938)
Increase (decrease) in deposits received	1,380	414
Other – net	69,494	(153,173)
Subtotal	21,221,777	15,028,266
Interest received	482	312
Interest paid	(1,220,857)	(1,280,097)
Interest received on tax refunds	549	95
Income taxes – refunded (paid)	(1,230)	(1,197)
Net cash provided by operating activities	20,000,722	13,747,378
Cash flows from investing activities		
Purchase of property and equipment	(1,332,712)	(476,704)
Purchase of property and equipment in trust	(71,102,935)	(1,858,016)
Purchase of intangible assets	(89,263)	(604,760)
Payments of reserve for repairs and maintenance	(40,453)	(36,549)
Proceeds from collection of guarantee deposits	—	130,000
Reimbursements of tenant leasehold and security deposits	(496)	—
Proceeds from tenant leasehold and security deposits in trust	329,120	64,941
Reimbursements of tenant leasehold and security deposits in trust	(228,114)	(296,047)
Net cash used in investing activities	(72,464,854)	(3,077,137)
Cash flows from financing activities		
Proceeds from short-term loans payable	8,000,000	18,574,000
Repayments of short-term loans payable	(8,000,000)	(5,792,000)
Proceeds from long-term loans payable	37,000,000	—
Repayments of long-term loans payable	(12,917,000)	(12,782,000)
Proceeds from investment corporation bonds	10,000,000	—
Redemption of investment corporation bonds	(2,000,000)	—
Payments for investment corporation bond issuance costs	(69,102)	—
Proceeds from issuance of investment units	33,209,706	—
Dividends paid	(15,600,256)	(16,461,008)
Net cash provided by (used in) financing activities	49,623,347	(16,461,008)
Net increase (decrease) in cash and cash equivalents	(2,840,785)	(5,790,766)
Cash and cash equivalents at beginning of year	37,184,716	34,343,930
Cash and cash equivalents at end of year	*1 34,343,930	*1 28,553,164

(6) Notes on going concern assumption

Not applicable.

(7) Notes on matters concerning significant accounting policies

1. Method of depreciation and amortization of noncurrent assets	<p>(1) Property and equipment (including trust accounts)</p> <p>Depreciation of property and equipment is calculated using the straight-line method. The useful lives of major property and equipment components are as follows:</p> <table><tr><td>Machinery and equipment</td><td>2 to 17 years</td></tr><tr><td>Tools, furniture and fixtures</td><td>2 to 20 years</td></tr><tr><td>Buildings in trust</td><td>2 to 64 years</td></tr><tr><td>Structures in trust</td><td>2 to 64 years</td></tr><tr><td>Machinery and equipment in trust</td><td>3 to 32 years</td></tr><tr><td>Tools, furniture and fixtures in trust</td><td>2 to 27 years</td></tr></table> <p>(2) Intangible assets</p> <p>Intangible assets are amortized using the straight-line method. The amortization period of major intangible assets is as follows.</p> <table><tr><td>Software (for internal use)</td><td>5 years as internally usable years</td></tr><tr><td>Trademark right</td><td>10 years</td></tr></table> <p>Fixed-term leasehold rights in trust are amortized using the straight-line method based on remaining period (41 years and 49 years) of the contract.</p> <p>(3) Long-term prepaid expenses</p> <p>Long-term prepaid expenses are amortized using the straight-line method.</p>	Machinery and equipment	2 to 17 years	Tools, furniture and fixtures	2 to 20 years	Buildings in trust	2 to 64 years	Structures in trust	2 to 64 years	Machinery and equipment in trust	3 to 32 years	Tools, furniture and fixtures in trust	2 to 27 years	Software (for internal use)	5 years as internally usable years	Trademark right	10 years
Machinery and equipment	2 to 17 years																
Tools, furniture and fixtures	2 to 20 years																
Buildings in trust	2 to 64 years																
Structures in trust	2 to 64 years																
Machinery and equipment in trust	3 to 32 years																
Tools, furniture and fixtures in trust	2 to 27 years																
Software (for internal use)	5 years as internally usable years																
Trademark right	10 years																
2. Accounting for deferred assets	<p>(1) Investment unit issuance costs</p> <p>Investment unit issuance costs are amortized using the straight-line method over three years.</p> <p>(2) Investment corporation bond issuance costs</p> <p>Investment corporation bond issuance costs are amortized using the interest method over the respective term of the bond.</p>																
3. Standards for recognition of revenues and expenses	<p>Treatment of property taxes and other taxes</p> <p>For taxes imposed on properties under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the respective period and expensed as “Real estate operating costs.”</p> <p>Cash paid for property taxes and city planning taxes to the transferor of real properties at acquisition is not recorded as “Real estate operating costs” but capitalized as part of the acquisition cost of the relevant property.</p> <p>The amount of such taxes capitalized in the acquisition cost of real properties was ¥249,415 thousand for the year ended December 31, 2019, and none for the year ended December 31, 2020.</p>																
4. Method of hedge accounting	<p>(1) Method of hedge accounting</p> <p>Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items</p> <table><tr><td>Hedging instruments</td><td>Interest rate swaps</td></tr><tr><td>Hedged items</td><td>Interest rates on loans payable</td></tr></table> <p>(3) Hedging policy</p> <p>JHR enters into certain derivative transactions in accordance with its financial policy in order to manage risks, which is provided in the Articles of Incorporation.</p> <p>(4) Method for assessing hedge effectiveness</p> <p>JHR evaluates hedge effectiveness by comparing the cumulative changes in cash flow of hedging instruments and the hedged items and assessing the ratio between the changes.</p>	Hedging instruments	Interest rate swaps	Hedged items	Interest rates on loans payable												
Hedging instruments	Interest rate swaps																
Hedged items	Interest rates on loans payable																

5. Scope of funds (cash and cash equivalents) in the statements of cash flows	Cash and cash equivalents in the statements of cash flows consist of cash on hand, cash in trust accounts, bank deposit and trust deposit, which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased, which can easily be converted to cash and subject to minimal risk of change in value.
6. Other significant matters serving as the basis for preparing financial statements	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets For trust beneficial interests in real estate, etc., all assets and liabilities held in trust accounts as well as all income generated and expenses incurred from assets in trust are presented in the accompanying balance sheet and income statement accounts accordingly. The following material items of the trust accounts recorded in the relevant accounts are presented separately on the balance sheets.</p> <ul style="list-style-type: none"> (a) Cash and deposits in trust (b) Buildings in trust; Structures in trust; Machinery and equipment in trust; Tools, furniture and fixtures in trust; Land in trust; Construction in progress in trust (c) Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust (d) Tenant leasehold and security deposits in trust <p>(2) Accounting treatment of consumption taxes Consumption taxes are excluded from the transaction amounts.</p>

(8) Notes to financial statements

Disclosure of notes on “securities,” “share of (profit) loss of entities accounted for using equity method,” “related-party transactions” and “retirement benefits” is omitted because the significance of disclosure in the financial report is minimal.

[Notes to balance sheets]

*1. Accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received, etc.

(thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Buildings in trust	¥24,921	¥24,921

*2. Matters concerning provision and reversal of reserve for temporary difference adjustment

As of December 31, 2019

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	12,357,644	—	563,572	11,794,071	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill which was recorded as a dividend reserve before the fiscal year ended December 31, 2016, and is scheduled for reversal every fiscal year, starting from the fiscal year following the fiscal year in which the reserve was made, in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

As of December 31, 2020

(thousands of yen)

	Amount of initial accrual	Balance at beginning of period	Amount of provision during period	Amount of reversal during period	Balance at end of period	Grounds for provision and reversal
Dividend reserve (Note)	13,127,153	11,794,071	—	1,176,490	10,617,580	Allocation for dividend

(Note) Dividend reserve indicates the remaining balance of the amount subdivided into gain on negative goodwill which was recorded as a dividend reserve before the fiscal year ended December 31, 2016, and is scheduled for reversal every fiscal year, starting from the fiscal year following the fiscal year in which the reserve was made, in an amount that shall be no less than that in equal amounts every fiscal year over a period of no more than 50 years.

*3. Minimum net assets as required by Article 67, paragraph 4 of the Investment Trusts Act

	As of December 31, 2019	As of December 31, 2020
	¥50,000 thousand	¥50,000 thousand

[Notes to statements of income]

*1. Components of real estate operating revenue and real estate operating costs

(thousands of yen)

	For the year ended December 31, 2019	For the year ended December 31, 2020
A. Real estate operating revenue		
Real estate operating revenue		
Fixed rent	15,931,097	7,640,060
Variable rent	8,675,885	1,902,240
Income from management contracts	2,501,004	61,423
Total	27,107,988	9,603,724
Other real estate operating revenue		
Parking lots	161,660	116,458
Other incidental revenue	63,016	83,051
Utilities	803,012	546,450
Other	142,873	146,041
Total	1,170,561	892,001
Total real estate operating revenue	28,278,550	10,495,725
B. Real estate operating costs		
Real estate operating costs		
Land lease and other rent expenses	898,207	890,001
Property taxes	1,658,930	1,915,565
Outsourcing expenses (Note)	653,041	423,852
Nonlife insurance	51,030	67,271
Depreciation and amortization	4,557,414	4,761,907
Loss on retirement of noncurrent assets	246,890	5,701
Repairs	41,410	29,261
Utilities	818,290	559,044
Trust fees	44,679	42,480
Other	27,511	22,245
Total real estate operating costs	8,997,408	8,717,332
C. Net real estate operating income (A – B)	19,281,141	1,778,393

(Note) Outsourcing expenses include management fees of ¥296,029 thousand for the year ended December 31, 2019, and ¥70,119 thousand for the year ended December 31, 2020.

*2. Breakdown of gain on sales of real estate properties

For the year ended December 31, 2019

Not applicable.

For the year ended December 31, 2020

(thousands of yen)

Sotetsu Fresa Inn Shimbashi-Karasumoriguchi

Proceeds from sale of real estate	8,000,000
Cost of sale of real estate	4,790,596
Other related sales expenses	51,021
Gain on sales of real estate properties	3,158,381

*3. Breakdown of gain on exchange of real estate properties

For the year ended December 31, 2019

Not applicable.

For the year ended December 31, 2020

(thousands of yen)

HOTEL ASCENT FUKUOKA (part of site)	
Proceeds from transfer of real estate	523,000
Cost of transfer of real estate	333,359
Other related transfer expenses	4,915
Gain on exchange of real estate properties	184,725

[Notes to statements of changes in net assets]

	For the year ended December 31, 2019	For the year ended December 31, 2020
*1 Total number of investment units authorized, and issued and outstanding		
Total number of investment units authorized	20,000,000 units	20,000,000 units
Total number of investment units issued and outstanding	4,462,347 units	4,462,347 units

[Notes to statements of cash dividends]

*1. Reserve for temporary difference adjustment

For the year ended December 31, 2019

By application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015), ¥13,127,153,216 in dividend reserve that is the remaining balance of the amount subdivided into gain on negative goodwill recorded in prior fiscal years is set aside as reserve for temporary difference adjustment on the statements of cash dividends for the year ended December 31, 2016. Starting from the fiscal year following the fiscal year in which the reserve was made, reversal of the concerned reserve amount in an amount that shall be no less than the 50-year even amortization amount (¥262,543,065) of the remaining balance of the amount when the reserve was made, is required. In this fiscal year under review, reversal of ¥1,176,490,844 has been decided, which is the amount calculated by adding ¥246,890,844 equivalent to loss on retirement of fixed assets, ¥357,000,000 for the large-scale renovation at Oriental Hotel Fukuoka Hakata Station (former name: Hotel Centraza Hakata) and ¥310,000,000 for adjustment to dilution of dividend per unit due to capital increase through public offering to ¥262,600,000 of the reversal.

For the year ended December 31, 2020

By application of the transitional measures of Paragraph 3 of the Supplementary Provisions of the “Ordinance on Accountings of Investment Corporations” (Cabinet Office Ordinance No. 27 of 2015), ¥13,127,153,216 in dividend reserve that is the remaining balance of the amount subdivided into gain on negative goodwill recorded in prior fiscal years is set aside as reserve for temporary difference adjustment on the statements of cash dividends for the year ended December 31, 2016. Starting from the fiscal year following the fiscal year in which the reserve was made, reversal of the concerned reserve amount in an amount that shall be no less than the 50-year even amortization amount (¥262,543,065) of the remaining balance of the amount when the reserve was made, is required. In this fiscal year under review, reversal of ¥305,694,382 has been decided, which is the amount calculated by adding ¥5,701,616 equivalent to loss on retirement of fixed assets and ¥37,392,766 equivalent to amortization of trademark right to ¥262,600,000 of the reversal.

[Notes to statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of year and the amount in balance sheet accounts

	(thousands of yen)	
	For the year ended December 31, 2019	For the year ended December 31, 2020
Cash and deposits	¥22,449,911	¥19,382,019
Cash and deposits in trust	¥11,894,019	¥9,171,145
Cash and cash equivalents	¥34,343,930	¥28,553,164

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

	(thousands of yen)	
	As of December 31, 2019	As of December 31, 2019
Due within one year	¥1,459,034	¥990,152
Due after one year	¥2,106,234	¥1,213,075
Total	¥3,565,268	¥2,203,227

[Notes on financial instruments]

1. Matters concerning status of financial instruments

(1) Policy for financial instruments

JHR is an investment corporation set forth in Article 2, paragraph 12 of the Investment Trusts Act, managing investments mainly in specified assets as prescribed in the Investment Trusts Act. As a policy, JHR procures funds through issuance of investment units, etc. and loans from financial institutions in order to make investments in specified assets. JHR does not utilize surplus funds to invest in financial instruments except for short-term deposits and other equivalent short-term financial instruments. JHR may enter into derivative transactions in order to hedge against interest rate risk, but not for speculative trading purposes.

(2) Details of financial instruments, their risks, and risk management system

Operating accounts receivable is operating receivables and is exposed to credit risks of clients. As for the risks, JHR is managing payment dates and balances by each client with an aim to grasp concerns in collecting due to deterioration in their financial status and other factors in early stage and reduce the risks.

The floating rate loans payable are exposed to risks of interest rate fluctuations. In order to mitigate interest rate risk, JHR may enter into derivative transactions, if necessary, to fix the interest expense.

Derivative transactions are conducted principally in accordance with rules prescribed by JHR and risk management rules applied by the Asset Management Company. Derivative transactions are arranged by the section in charge of finance at the Asset Management Company by using financial institutions with high credit ratings through approval and resolution by authorized personnel and a meeting committee structure set forth in its decision-making standards and resolution of JHR's board of directors.

Loans payable are exposed to liquidity risks. The section in charge of finance at the Asset Management Company prepares and updates projections and actual cash flows on a monthly basis to manage liquidity risks and monitor compliance with restrictive covenants set forth in the loan agreements. JHR manages liquidity risks by managing the ratio of short-term and long-term loans payable considering the current financial environment through approval and resolution by authorized personnel and meeting committee structure in the Asset Management Company and resolution of JHR's board of directors.

(3) Supplementary explanation on matters concerning fair value, etc. of financial instruments

Regarding the contract amount, etc. of derivative transactions in "2. Matters concerning fair value of financial instruments," the amount itself does not indicate certain scale of market risk exposure related to derivative transactions.

2. Matters concerning fair value of financial instruments

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2019, were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table. See Note 2 below.

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	22,449,911	22,449,911	—
(2) Cash and deposits in trust	11,894,019	11,894,019	—
(3) Operating accounts receivable	2,779,730	2,779,730	—
Total assets	37,123,661	37,123,661	—
(4) Short-term loans payable	—	—	—
(5) Current portion of investment corporation bonds payable	—	—	—
(6) Current portion of long-term loans payable	12,782,000	12,782,000	—
(7) Investment corporation bonds	41,600,000	41,480,400	(119,600)
(8) Long-term loans payable	114,372,000	114,372,000	—
Total liabilities	168,754,000	168,634,400	(119,600)
(9) Derivative transactions (*)	(389,386)	(389,386)	—

(*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2020, were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table. See Note 2 below.

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	19,382,019	19,382,019	—
(2) Cash and deposits in trust	9,171,145	9,171,145	—
(3) Operating accounts receivable	672,415	672,415	—
Total assets	29,225,579	29,225,579	—
(4) Short-term loans payable	12,782,000	12,782,000	—
(5) Current portion of investment corporation bonds payable	1,500,000	1,468,350	(31,650)
(6) Current portion of long-term loans payable	10,800,000	10,800,000	—
(7) Investment corporation bonds	40,100,000	34,415,280	(5,684,720)
(8) Long-term loans payable	103,572,000	103,572,000	—
Total liabilities	168,754,000	163,037,630	(5,716,370)
(9) Derivative transactions (*)	(789,147)	(789,147)	—

(*) Receivables and payables arising from derivative transactions are presented on a net basis and amounts in parenthesis denote net payables.

(Note 1) Methods to measure fair value of financial instruments, and derivative transactions

(1) Cash and deposits; (2) Cash and deposits in trust; (3) Operating accounts receivable; (4) Short-term loans payable

The carrying value is deemed to approximate the fair value since the instruments are scheduled to be settled in a short period of time. Therefore, carrying value is stated.

(5) Current portion of investment corporation bonds payable; (7) Investment corporation bonds

The fair value of these instruments is measured based on the market price.

(6) Current portion of long-term loans payable; (8) Long-term loans payable

The carrying value is deemed to approximate the fair value since the interest rate on long-term loans payable are floating interest rates which are revised periodically to reflect market interest rates.

(9) Derivative transactions

The information on the fair value of derivative transactions is presented in “Notes on derivative transactions” below.

(Note 2) Carrying amount of financial instruments whose fair values are considered extremely difficult to measure

(thousands of yen)

Classification	As of December 31, 2019	As of December 31, 2020
Tenant leasehold and security deposits	1,040,520	1,040,520
Tenant leasehold and security deposits in trust	4,681,825	4,356,804
Total	5,722,345	5,397,324

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) for rental properties are not subject to fair value disclosure because they have no market price and their actual deposit periods from a tenant's move-in to move-out are not estimable, thus making a reasonable estimate of future cash flows is difficult.

3. Redemption schedule for monetary claims subsequent to the account closing date

As of December 31, 2019

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Cash and deposits	22,449,911	—	—	—	—	—
Cash and deposits in trust	11,894,019	—	—	—	—	—
Operating accounts receivable	2,779,730	—	—	—	—	—
Total	37,123,661	—	—	—	—	—

As of December 31, 2020

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Cash and deposits	19,382,019	—	—	—	—	—
Cash and deposits in trust	9,171,145	—	—	—	—	—
Operating accounts receivable	672,415	—	—	—	—	—
Total	29,225,579	—	—	—	—	—

4. Schedule for repayment of loans payable and redemption of investment corporation bonds subsequent to the account closing date

As of December 31, 2019

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Short-term loans payable	—	—	—	—	—	—
Current portion of investment corporation bonds payable	—	—	—	—	—	—
Current portion of long-term loans payable	12,782,000	—	—	—	—	—
Investment corporation bonds	—	1,500,000	6,000,000	—	3,000,000	31,100,000
Long-term loans payable	—	10,800,000	10,900,000	15,772,000	18,650,000	58,250,000
Total	12,782,000	12,300,000	16,900,000	15,772,000	21,650,000	89,350,000

As of December 31, 2020

	Due within one year (JPY 1,000)	Due after one to two years (JPY 1,000)	Due after two to three years (JPY 1,000)	Due after three to four years (JPY 1,000)	Due after four to five years (JPY 1,000)	Due after five years (JPY 1,000)
Short-term loans payable	12,782,000	—	—	—	—	—
Current portion of investment corporation bonds payable	1,500,000	—	—	—	—	—
Current portion of long-term loans payable	10,800,000	—	—	—	—	—
Investment corporation bonds	—	6,000,000	—	3,000,000	—	31,100,000
Long-term loans payable	—	10,900,000	15,772,000	18,650,000	19,000,000	39,250,000
Total	25,082,000	16,900,000	15,772,000	21,650,000	19,000,000	70,350,000

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

As of December 31, 2019

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(25,992)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of December 31, 2020

For derivative transactions which hedge accounting is not applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date was as follows:

(thousands of yen)

Classification	Type, etc. of derivative transaction	Contract amount, etc.		Fair value	Method to measure the fair value
			Of which, due after one year		
Transactions other than market transactions	Interest rate swaps (fixed rate payment, floating rate receipt)	3,494,000	3,494,000	(29,655)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

2. Derivative transactions to which hedge accounting is applied

As of December 31, 2019

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	112,654,000	101,072,000	(363,394)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of December 31, 2020

For derivative transactions which hedge accounting is applied, the contract amount or the amount equivalent to the principal provided in the contract, etc. as of the account closing date for each method of hedge accounting was as follows:

(thousands of yen)

Method of hedge accounting	Type, etc. of derivative transaction	Main hedged item	Contract amount, etc.		Fair value	Method to measure the fair value
				Of which, due after one year		
Deferral method	Interest rate swaps (fixed rate payment, floating rate receipt)	Long-term loans payable	101,072,000	90,272,000	(759,492)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

[Notes on tax-effect accounting]

1. Significant components of deferred tax assets and liabilities by cause

(thousands of yen)

	As of December 31, 2019	As of December 31, 2020
Deferred tax assets:		
Valuation difference on assets accepted through merger	1,712,010	1,696,476
Amortization of fixed-term leasehold of land	162,810	206,151
Asset retirement obligations	14,951	15,530
Amortization of trademark right	—	11,763
Deferred gains (losses) on hedges	128,306	238,937
Total gross deferred tax assets	2,018,079	2,168,860
Valuation allowance	(2,018,079)	(2,168,860)
Total deferred tax assets	—	—
Deferred tax liabilities:		
Deferred gains (losses) on hedges	13,981	—
Total gross deferred tax liabilities	13,981	—

2. Details of major causes of material differences between the statutory tax rate and the tax rate under effective tax accounting

	As of December 31, 2019	As of December 31, 2020
Statutory tax rate	31.51%	31.46%
[Adjustments]		
Deduction for dividends paid	(31.72%)	(34.09%)
Change in valuation allowance	0.20%	2.63%
Other – net	0.03%	0.08%
Actual effective tax rate	0.01%	0.08%

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the balance sheet

1. Outline of the subject asset retirement obligations

JHR recognizes asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station (former name: Hotel Centraza Hakata), acquired on April 1, 2016, and HOTEL ASCENT FUKUOKA, acquired on August 19, 2016, to the original state in accordance with the fixed-term leasehold agreement. For the asset retirement obligations of HOTEL ASCENT Fukuoka, the obligations have been expired with the termination of the fixed-term leasehold agreement on its land due to the exchange of part of the site as of October 29, 2020.

2. Calculation method of the subject asset retirement obligations

Calculated the amount of asset retirement obligations estimating that the expected useful life is 34 years and 48 years, respectively, due to their remaining use period and using the discount rate of 0.484% and 0.394%, respectively.

3. Increase and decrease of the subject asset retirement obligations

(thousands of yen)

	For the year ended December 31, 2019	For the year ended December 31, 2020
Balance at beginning of period	445,622	447,677
Increase due to acquisition of property and equipment	—	—
Adjustment due to passage of time	2,054	1,989
Decrease due to expiration of asset retirement obligations	—	(114,505)
Balance at end of period	447,677	335,161

[Notes on segment and related information]

1. Segment information

The segment information has been omitted because JHR has only one segment, which is the investment and management of hotel real estate.

2. Related information

For the year ended December 31, 2019

(1) Information about products and services

Information about products and services has been omitted because operating revenue from external customers in a single product / service category accounted for more than 90% of total operating revenue on the statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the statements of income.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in Japan accounted for more than 90% of net property and equipment on the balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note)	15,221,983	Investment and management of hotel real estate
AAPC Japan K.K.	2,996,251	Investment and management of hotel real estate

(Note) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

For the year ended December 31, 2020

(1) Information about products and services

Information about products and services has been omitted because operating revenue from external customers in a single product / service category accounted for more than 90% of total operating revenue on the statements of income.

(2) Information about geographical areas

(i) Operating revenue

Information about geographical areas has been omitted because operating revenue from external customers in Japan accounted for more than 90% of total operating revenue on the statements of income.

(ii) Property and equipment

Information about property and equipment has been omitted because the amount of property and equipment located in

Japan accounted for more than 90% of net property and equipment on the balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note 1)	1,990,793	Investment and management of hotel real estate
THE DAI-ICHI BUILDING CO., LTD.	Undisclosed (Note 2)	Investment and management of hotel real estate

(Note 1) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

(Note 2) Undisclosed as the consent on disclosure has not been obtained from the lessee.

[Notes on rental properties, etc.]

JHR owns rental properties for hotels. The carrying amounts, changes in such balances, and fair values of such properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2019	For the year ended December 31, 2020
Hotel	Carrying amount		
	Balance at beginning of period	306,789,379	374,314,498
	Net increase (decrease) during period	67,525,119	(7,030,802)
	Balance at end of period	374,314,498	367,283,696
	Fair value at end of period	525,910,000	493,330,000

(Note 1) Increase during the year ended December 31, 2019, principally represents the acquisition of Hotel Oriental Express Osaka Shinsaibashi for ¥2,841 million and Hilton Tokyo Odaiba for ¥63,468 million. Decrease during the year ended December 31, 2020, principally represents the sale of Sotetsu Fresa Inn Shimbashi-Karasumoriguchi for ¥4,790 million and recording of depreciation.

(Note 2) Fair value at end of period is the appraisal value determined by external licensed real estate appraisers.

Real estate operating revenue and costs related to the rental properties were as follows:

(thousands of yen)

Use		For the year ended December 31, 2019	For the year ended December 31, 2020
Hotel	Amount on the statements of income		
	Real estate operating revenue	28,278,550	10,495,725
	Real estate operating costs	8,997,408	8,717,332
	Net real estate operating income	19,281,141	1,778,393

(Note) “Real estate operating revenue” and “Real estate operating costs” are income from real estate operation (including other income from real estate operation) and corresponding expenses (such as depreciation, property tax, etc., trust fees, repair expenses and others), and are included in “Real Estate operating revenue” and “Real estate operating costs,” respectively.

[Notes on per unit information]

	For the year ended December 31, 2019	For the year ended December 31, 2020
Net assets per unit	¥53,004	¥49,570
Net income per unit	¥3,447	¥342

(Note 1) Net income per unit is computed by dividing net income by the average number of investment units during the period.

Net income per unit after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

(Note 2) The basis of computation of net income per unit is as follows:

	For the year ended December 31, 2019	For the year ended December 31, 2020
Net income (JPY 1,000)	15,290,314	1,527,045
Amount not attributable to common unitholders (JPY 1,000)	—	—
Net income attributable to common investment units (JPY 1,000)	15,290,314	1,527,045
Average number of investment units during period (units)	4,434,849	4,462,347

[Notes on significant subsequent events]

Not applicable.

[Additional information]

Impact of COVID-19

With the number of infections starting to increase again since November 2020, and despite growing expectations for containment of infections as vaccination started in Europe and the U.S., the worldwide spread of the infection by COVID-19 and the deterioration in social and economic conditions have not yet settled, and recovery in hotel performance is expected to take more time.

Under such circumstances, some of the lessees whose business performance has worsened have requested reduction or postponement of fixed rent, leading to the risk of JHR's operating revenue possibly decreasing.

Although it is uncertain and difficult to foresee when COVID-19 will be contained, JHR made accounting estimates by applying impairment accounting for property and equipment based on information available as of the date of preparation of this Financial Report and assuming that the impact by COVID-19 will continue through the fiscal year ending December 31, 2021, followed by recovery in performance after a certain period of time.

However, as it is difficult to accurately predict when COVID-19 will be contained and how large its impact will be, JHR may see its asset status, income and cash flows affected in case the recovery is delayed.

(9) Changes in total number of investment units issued and outstanding

The following is the status of increase (decrease) in the total number of investment units issued and outstanding and unitholders' capital for past five years through to the end of the fiscal year under review.

Date	Capital transaction	Total number of investment units issued and outstanding (Units)		Unitholders' capital (JPY1M)		Note
		Increase (Decrease)	Balance	Increase (Decrease)	Balance	
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 1)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 2)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 3)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 4)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 5)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 6)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 7)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 8)

(Note 1) New investment units were issued through public offering with an issue price per unit of ¥85,020 (issue value of ¥82,273) in order to procure funds for the allocation to acquisition of new properties, etc.

(Note 2) New investment units were issued through third-party allotment with an issue value per unit of ¥82,273 in order to procure funds for allocation to acquisition of new properties, etc.

(Note 3) New investment units were issued through public offering with an issue price per unit of ¥81,536 (issue value of ¥78,956) in order to procure funds for the allocation to acquisition of new properties, etc.

(Note 4) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of other loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(Note 5) New investment units were issued through public offering with an issue price per unit of ¥77,518 (issue value of ¥75,065) in order to procure funds for the allocation to acquisition of new properties, etc.

(Note 6) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of other loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(Note 7) New investment units were issued through public offering with an issue price per unit of ¥76,342 (issue value of ¥73,927) in order to procure funds for the allocation to acquisition of new properties, etc.

(Note 8) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to procure funds for allocation to part of acquisitions of new properties, etc.

3. Reference information

For detailed information of each property and the operating results of hotels, please see the reference information below as well as Financial Results Briefing dated today and the website of JHR (<https://www.jhrth.co.jp/en/ir/library.html>).

(1) Information on values of assets under management, etc.

(i) Investment status

The following outlines the investment status of JHR as of the end of the fiscal year under review.

The following outlines the investment status of STRE as of the end of the fiscal year under review.								
Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2019		As of December 31, 2020		
				Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	Total amount held (JPY1M) (Note 2)	Ratio to total assets (%) (Note 3)	
Real estate in trust	Limited-service hotel	Osaka	Holiday Inn Osaka Namba	26,985	6.5	26,870	6.7	
			Namba Oriental Hotel	14,539	3.5	14,437	3.6	
			Hotel Oriental Express Osaka Shinsaibashi	2,817	0.7	2,805	0.7	
		Tokyo	ibis Tokyo Shinjuku	7,908	1.9	7,830	2.0	
			CANDEO HOTELS UENO-KOEN	6,644	1.6	6,606	1.7	
			the b ikebukuro	6,584	1.6	6,578	1.6	
			Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	4,801	1.2	—	—	
			Comfort Hotel Tokyo Higashi Nihombashi	3,527	0.8	3,491	0.9	
			the b hachioji	2,680	0.6	2,664	0.7	
			Smile Hotel Nihombashi Mitsukoshimae	2,022	0.5	2,042	0.5	
			R&B Hotel Ueno Hirokoji	1,822	0.4	1,806	0.5	
			Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo) (Note 5)	1,452	0.3	1,447	0.4	
			the b suidobashi	1,194	0.3	1,173	0.3	
			dormy inn global cabin Asakusa	941	0.2	934	0.2	
			Chisun Inn Kamata	769	0.2	768	0.2	
			Hokkaido	ibis Styles Sapporo	6,561	1.6	6,492	1.6
				Mercure Sapporo	5,792	1.4	5,735	1.4
		Fukuoka	HOTEL ASCENT FUKUOKA	5,161	1.2	5,450	1.4	
			the b hakata	2,340	0.6	2,329	0.6	
			Hakata Nakasu Washington Hotel Plaza	2,022	0.5	2,038	0.5	
			Toyoko Inn Hakata-guchi Ekimae	1,419	0.3	1,401	0.4	
		Kyoto	ibis Styles Kyoto Station	6,650	1.6	6,623	1.7	
		Okinawa	Mercure Okinawa Naha	2,833	0.7	2,801	0.7	
		Kumamoto	Dormy Inn Kumamoto	2,139	0.5	2,170	0.5	
		Nara	Nara Washington Hotel Plaza	1,798	0.4	1,764	0.4	
		Subtotal			121,410	29.2	116,265	29.0
		Full-service hotel	Tokyo	Hilton Tokyo Odaiba	63,429	15.3	63,376	15.8
				Oriental Hotel tokyo bay	17,486	4.2	17,190	4.3
			Chiba	Hilton Tokyo Narita Airport	13,205	3.2	13,088	3.3
				International Garden Hotel Narita	9,162	2.2	9,127	2.3
				Hotel Frances	3,178	0.8	3,145	0.8
			Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,327	4.2	17,215	4.3
	Oriental Hotel Hiroshima			4,099	1.0	4,048	1.0	
	Aichi		Hilton Nagoya	15,650	3.8	15,695	3.9	
	Nara		Hotel Nikko Nara	10,355	2.5	10,254	2.6	
	Hyogo		Kobe Meriken Park Oriental Hotel	9,678	2.3	9,482	2.4	
	Fukuoka		Oriental Hotel Fukuoka Hakata Station	9,560	2.3	9,251	2.3	
	Kanagawa		Mercure Yokosuka	1,621	0.4	1,606	0.4	
	Subtotal			174,756	42.0	173,483	43.3	
	Resort hotel		Okinawa	Hotel Nikko Alivila	17,904	4.3	17,790	4.4
		Okinawa Marriott Resort & Spa		14,924	3.6	14,745	3.7	
		The Beach Tower Okinawa		6,581	1.6	6,490	1.6	
		Chiba	Hilton Tokyo Bay	26,408	6.4	26,289	6.6	
		Osaka	Hotel Keihan Universal City	5,905	1.4	5,830	1.5	
		Kanagawa	Hakone Setsugetsuka	3,689	0.9	3,616	0.9	
		Subtotal			75,413	18.1	74,763	18.7
Real estate in trust – Total			371,580	89.4	364,512	91.1		
Deposits and other assets (Note 7)			44,142	10.6	35,783	8.9		
Total assets			415,722	100.0	400,296	100.0		
				Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)	
Total liabilities				179,200	43.1	179,095	44.7	
Total net assets				236,522	56.9	221,201	55.3	

- (Note 1) Hotels are categorized as limited-service hotels, full-service hotels or resort hotels according to the manner of operation.
- (Note 2) For real estate in trust, “Total amount held” shows the amount calculated by deducting accumulated depreciation from acquisition price (including expenses incidental to acquisition).
- (Note 3) “Ratio to total assets” shows the ratio of total amount of each asset to total assets, rounded off to one decimal place.
- (Note 4) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.
- (Note 5) Hotel Vista Kamata Tokyo changed its name to Chisun Hotel Kamata on January 1, 2021 due to rebranding following cancellation of lease contract. In this report, the same shall apply hereinafter.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Includes machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets (excluding leasehold rights in trust and fixed-term leasehold of land in trust).

(ii) Assets under management

(A) Major issues of investment securities

Not applicable

(B) Real estate properties under management

Not applicable

(C) Other major assets under management

A. Summary of real estate properties (in trust) under management

The following summarizes the real estate properties (in trust) under management by JHR as of the end of the fiscal year under review.

a. Details of assets under management (acquisition price, etc.)

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
1	Kobe Meriken Park Oriental Hotel	Upper-middle	10,900	9,654	13,900	N	2.9	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	17,367	32,100	N	5.4	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,513	31,400	N	4.1	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	18,019	28,800	N	5.1	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,112	4,130	N	1.1	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	7,903	9,900	N	2.0	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,495	10,000	N	2.1	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,622	5,300	N	1.1	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,170	3,030	N	0.6	Unsecured
12	the b suidobashi	Mid-price	1,120	1,186	2,280	N	0.3	Unsecured
13	Dormy inn·global cabin Asakusa	Economy	999	934	1,280	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,038	4,510	N	0.6	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,765	2,430	N	0.6	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,806	1,910	J	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,491	5,390	J	1.0	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,042	2,930	J	0.6	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,401	2,750	T	0.4	Unsecured
25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo)	Economy	1,512	1,458	2,010	T	0.4	Unsecured
26	Chisun Inn Kamata	Economy	823	771	1,370	T	0.2	Unsecured
29	Hotel Keihan Universal City	Mid-price	6,000	5,833	15,400	R	1.6	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,301	39,900	D	7.0	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,641	10,200	D	1.8	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,522	11,100	N	1.8	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,789	10,500	N	1.6	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,841	6,940	N	0.8	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,593	6,980	N	1.8	Unsecured
39	the b hachioji	Mid-price	2,610	2,681	2,560	N	0.7	Unsecured

Property No.	Name	Grade (Note 1)	Acquisition price (JPY1M) (Note 2)	Carrying amount at end of period (JPY1M) (Note 3)	Appraisal value at end of period (JPY1M) (Note 4)	Appraisal agency (Note 5)	Investment ratio (Acquisition price) (%) (Note 6)	Collateral (Note 7)
40	the b hakata	Mid-price	2,300	2,347	4,330	N	0.6	Unsecured
41	Hotel Francs	Mid-price	3,105	3,145	4,080	D	0.8	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,634	3,310	D	0.4	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	14,878	17,200	N	4.0	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,294	21,000	D	4.7	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,613	7,430	D	1.8	Unsecured
46	Oriental Hotel Fukuoka Hakata Station	Upper-middle	7,197	9,473	15,200	D	1.9	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	26,941	26,500	N	7.3	Unsecured
48	HOTEL ASCENT FUKUOKA (Note 8)	Economy	5,248	5,451	6,650	D	1.4	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,696	15,000	D	4.1	Unsecured
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,343	13,400	N	3.6	Unsecured
51	International Garden Hotel Narita	Mid-price	9,125	9,196	9,500	N	2.5	Unsecured
52	Hotel Nikko Nara	Upper-middle	10,373	10,357	9,790	D	2.8	Unsecured
53	Hotel Oriental Express Osaka Shinsaibashi	Mid-price	2,738	2,816	2,840	D	0.7	Unsecured
54	Hilton Tokyo Odaiba	Upper-middle	62,400	63,607	68,100	N	16.9	Unsecured
	Total		370,031	366,760	493,330		100.0	

(Note 1) JHR categorizes hotels into the four grade classes “Luxury,” “Upper-middle,” “Mid-price” and “Economy” mainly from the perspective of average daily rate, etc.

(Note 2) “Acquisition price” is the acquisition price stated on the purchase and sale agreement for beneficial interest in trust, etc. (consumption tax, local consumption tax and the acquisition expense such as broker’s fee are not included). The acceptance prices are indicated for the properties that have been accepted through the merger with the former JHR.

(Note 3) “Carrying amount at end of period” is the book value at the end of the fiscal year under review, and includes not only the amounts for real estate in trust, but also machinery and equipment, tools, furniture and fixtures, construction in progress, construction in progress in trust, and intangible assets.

(Note 4) “Appraisal value at end of period” is the appraisal value at the end of the fiscal year under review as the date of appraisal, in accordance with the asset valuation methods and standards provided in JHR’s Articles of Incorporation and the regulations set forth by The Investment Trusts Association, Japan.

(Note 5) Under “Appraisal agency,” the letters indicate the appraisers for the properties as follows:

N: Nihon Fudosan Kenkyusho (Japan Real Estate Institute)

J: JLL Morii Valuation & Advisory K.K.

T: The Tanizawa Sōgō Appraisal Co., Ltd.

R: Rich Appraisal Institute Co., Ltd.

D: DAIWA REAL ESTATE APPRAISAL CO., LTD.

(Note 6) “Investment ratio” is the ratio of acquisition price of the respective asset held at the end of the fiscal year under review to the total amount of acquisition price of all assets held at the end of the fiscal year under review, rounded off to one decimal place.

(Note 7) “Collateral” is whether or not a pledge has been established for the beneficial interest in trust.

(Note 8) The acquisition price for HOTEL ASCENT FUKUOKA was changed due to the exchange of part of the site conducted as of October 29, 2020.

(Note 9) The omitted property numbers are the property numbers of assets that have been transferred.

b. Details of assets under management (change of tenants in portfolio)

The following is the changes in total number of tenants, total leasable area, total leased area, and occupancy rate of real estate properties (in trust) under management for the past five years.

	End of 17th period December 2016	End of 18th period December 2017	End of 19th period December 2018	End of 20th period December 2019	End of 21st period December 2020
Total number of tenants (Note 1)	128	131	126	125	121
Total leasable area (Note 2)	587,481.02 m ²	687,124.54 m ²	678,714.48 m ²	746,329.68 m ²	741,083.02 m ²
Total leased area (Note 3)	587,050.94 m ²	686,694.46 m ²	677,863.00 m ²	745,227.67 m ²	740,146.96 m ²
Occupancy rate (Note 4)	99.9%	99.9%	99.9%	99.9%	99.9%

(Note 1) Total number of tenants indicates the total number of tenants based on the lease contracts for respective real estate in trust (excluding tenants of parking lots, etc.) as of the end of each fiscal period. However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. from end tenants as is in principle, the total number of end tenants (excluding tenants of parking lots, etc.) is indicated.

- (Note 2) In principle, total leasable area represents leasable area of the building, which does not include leasable area of land (including parking lots on ground), based on a lease contract or plan for each real estate in trust. For properties in which the leased area is not described in the lease contract, leasable area represents the area described in the registration of the building. Furthermore, when the leasable area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). In this report, the same shall apply hereinafter.
- (Note 3) In principle, leased area represents the leased area described in the lease contract of the building. For properties in which the leased area is not described in the lease contract, leased area shows the area described in the registration of the building. Furthermore, when the leased area in the lease contract is indicated in tsubo units, the figure in the table has been converted to the area in metric units (3.30578 square meters per one tsubo). However, for properties for which master lease contracts under the pass-through scheme are concluded in which trustee receives the same amount of rents, etc. from end tenants as is in principle, the total area for which lease contracts have been concluded with end tenants and which are actually leased is indicated. The same shall apply hereinafter.
- (Note 4) Occupancy rate indicates the percentage of leased area to leasable area of respective real estate properties in trust as of the end of each fiscal period. The same shall apply hereinafter.

c. Details of assets under management (information on major real estate)

Major real estate of which total annual rent accounts for 10% or more of the total annual rent (Note 1) of the entire portfolio is as follows.

Property name	Total number of tenants	Total annual rent	Total leased area	Total leasable area	Change in occupancy rate for the past five years	
Hilton Tokyo Bay	1	(Note 2)	64,928.83 m ² (Note 3)	64,928.83 m ² (Note 3)	December 2016	100.0%
					December 2017	100.0%
					December 2018	100.0%
					December 2019	100.0%
					December 2020	100.0%

- (Note 1) “Total annual rent” is the amount of (i) the amount arrived at when monthly fixed rent (rent of the building itself only, excluding common area maintenance charges and signage and parking usage fees; not factoring in any change in rent during the fiscal year) in lease contracts at the end of the fiscal year under review is multiplied by 12, plus (ii) assumed amounts of revenue sharing, variable rent or income from management contracts for full year.
- The total annual rent for the HMJ Group Hotels indicates the sum of the fixed rent stated in the memorandum of understanding concerning the fixed-term lease contract concluded on August 25, 2020, and the assumed amount of variable rent.
- (Note 2) Total annual rent for Hilton Tokyo Bay is not indicates as consent for disclosure has not been obtained from the tenant.
- (Note 3) The building of Hilton Tokyo Bay is co-owned with other right holders, and JHR owns co-ownership interest for 64,928.83 square meters (JHR owns 9/10 of co-ownership interest).

d. Details of assets under management (NOI, etc.)

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	176,149	(75,480)	(372,925)
2	Oriental Hotel tokyo bay (Note 4)	Variable/Fixed	(134,058)	(253,226)	(621,781)
3	Namba Oriental Hotel (Note 4)	Variable/Fixed	415,818	310,818	147,170
4	Hotel Nikko Alivila (Note 4)	Variable/Fixed	263,662	114,808	(182,738)
5	Oriental Hotel Hiroshima (Note 4)	Variable/Fixed	(96,585)	(141,251)	(230,949)
6	ibis Tokyo Shinjuku	Management contract	141,133	11,211	(102,802)
8	The Beach Tower Okinawa	Fixed	511,008	467,758	333,365
9	Hakone Setsugetsuka	Fixed	294,940	270,927	176,232
10	Dormy Inn Kumamoto	Fixed	194,460	171,991	126,234
12	the b suidobashi	Variable/Fixed	21,249	10,443	(17,711)
13	Dormy inn-global cabin Asakusa (Note 4)	Fixed	63,995	55,087	41,283
14	Hakata Nakasu Washington Hotel Plaza (Note 4) (Note 5)	Fixed	240,000	224,000	199,000
15	Nara Washington Hotel Plaza (Note 5)	Fixed	150,000	134,000	98,000
16	R&B Hotel Ueno Hirokoji (Note 4)	Fixed	97,300	82,881	66,292
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 7)	272,674	242,314	205,537
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 7)	147,047	130,833	109,802
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	141,039	126,347	108,128
25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo) (Note 4)	Variable/Fixed (Note 7) (Note 8)	97,501	82,544	56,407
26	Chisun Inn Kamata	Variable	22,167	15,131	5,399

Property No.	Name	Rent type (Note 1)	Real estate operating revenue (JPY 1,000)	NOI (Note 2) (JPY 1,000)	NOI after depreciation (Note 3) (JPY 1,000)
29	Hotel Keihan Universal City (Note 4)	Variable/Fixed (Note 7)	558,039	481,584	392,871
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 6)	Variable/Fixed (Note 7)	232,363	200,048	187,174
31	Hilton Tokyo Bay (Note 4)	Variable/Fixed (Note 7)	1,978,209	1,694,658	1,509,889
32	ibis Styles Kyoto Station (Note 4)	Management contract	45,934	(1,980)	(40,372)
33	ibis Styles Sapporo (Note 4)	Management contract	92,940	14,694	(68,172)
34	Mercure Sapporo (Note 4)	Management contract	154,080	14,691	(80,122)
35	Mercure Okinawa Naha (Note 4)	Management contract	—	(47,747)	(113,015)
37	the b ikebukuro (Note 4)	Variable/Fixed	187,555	159,712	127,477
39	the b hachioji	Variable/Fixed	204,505	175,614	142,101
40	the b hakata	Variable/Fixed	33,079	19,660	(2,580)
41	Hotel Francs	Fixed	300,000	237,804	192,619
42	Mercure Yokosuka	Variable	112,624	10,456	(24,779)
43	Okinawa Marriott Resort & Spa (Note 4)	Variable/Fixed	45,833	(38,612)	(329,030)
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 4)	Variable/Fixed	895,756	511,061	290,487
45	CANDEO HOTELS UENO-KOEN (Note 4)	Fixed	349,971	323,336	283,025
46	Oriental Hotel Fukuoka Hakata Station (Note 4)	Variable/Fixed	373,331	124,751	(284,573)
47	Holiday Inn Osaka Namba (Note 4)	Variable/Fixed	48,000	(1,019)	(192,538)
48	HOTEL ASCENT FUKUOKA (Note 4)	Fixed	468,119	351,497	315,876
49	Hilton Nagoya	Variable	816,688	201,653	33,609
50	Hilton Tokyo Narita Airport	Variable/Fixed	123,748	35,932	(185,608)
51	International Garden Hotel Narita (Note 4)	Variable/Fixed	136,052	91,442	(56,863)
52	Hotel Nikko Nara (Note 4)	Variable/Fixed	35,000	(13,029)	(159,944)
53	Hotel Oriental Express Osaka Shinsaibashi (Note 4)	Variable/Fixed	9,200	(2,050)	(14,942)
54	Hilton Tokyo Odaiba (Note 4)	Variable/Fixed	258,300	6,320	(267,118)
	Total		10,480,185	6,532,452	1,800,246

(Note 1) Under “Rent type,” “Fixed” is a property under a fixed rent structure, “Variable” is a property under a variable rent structure, “Management contract” is a property under a management contract structure, and “Variable/Fixed” is a property under a combination of fixed and variable rent structures.

(Note 2) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses

(Note 3) NOI after depreciation (net operating income) = Real estate operating revenue – Real estate operating costs

(Note 4) Temporarily closed for a certain period of time during the fiscal year under review due to the impact of COVID-19.

(Note 5) For Hakata Nakasu Washington Hotel Plaza and Nara Washington Hotel Plaza, consent on disclosure of rent in units of thousand yen has not been obtained from the lessees and is thus rounded down to the nearest million yen.

(Note 6) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 7) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, Hotel Vista Kamata Tokyo, Hotel Keihan Universal City, Sotetsu Fresa Inn Shimbashi-Karasumoriguchi and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly has rent based on a revenue sharing structure.

(Note 8) The rent type for Hotel Vista Kamata Tokyo through December 31, 2020 is indicated. Hotel Vista Kamata Tokyo changed its name to Chisun Hotel Kamata on January 1, 2021 due to rebranding following cancellation of lease contract. On January 1, 2021, and thereafter, the rent type for Chisun Hotel Kamata is “Variable.”

(Note 9) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

B. Income statements for individual real estate properties (in trust) under management

The following are the individual income statements for real estate properties (in trust) under management for the fiscal year under review (from January 1, 2020 to December 31, 2020). Figures are rounded down to the nearest thousand yen in principle, but are otherwise noted if circumstances do not allow for the figures to be stated in units of thousand yen.

Property No.	-	1	2	3	4	5
Property name	Portfolio total (Note 1)	Kobe Meriken Park Oriental Hotel	Oriental Hotel tokyo bay (Note 2)	Namba Oriental Hotel (Note 2)	Hotel Nikko Alivila (Note 2)	Oriental Hotel Hiroshima (Note 2)
Number of operating days	-	366	366	366	366	366
(A) Real estate operating revenue subtotal	10,480,185	176,149	(134,058)	415,818	263,662	(96,585)
Fixed rent	7,640,060	49,991	63,216	70,325	67,008	17,875
Variable rent	1,963,664	125,187	(197,275)	345,493	196,654	(114,460)
Other revenue	876,461	969	-	-	-	-
(B) Real estate operating costs subtotal	8,679,939	549,074	487,723	268,648	446,401	134,363
Land lease and other rent expenses	890,001	192,714	-	-	84,149	-
Property taxes	1,915,565	52,362	112,958	100,507	57,526	41,164
Outsourcing expenses	423,852	960	960	960	1,920	960
Nonlife insurance	67,271	4,271	4,240	1,747	3,234	1,381
Depreciation and amortization	4,724,515	296,932	368,554	160,357	297,271	89,697
Loss on retirement of noncurrent assets	5,701	511	-	3,290	275	-
Other costs	653,032	1,321	1,009	1,784	2,023	1,160
(C) Net real estate operating income = (A) – (B)	1,800,246	(372,925)	(621,781)	147,170	(182,738)	(230,949)
(Reference) Occupancy rate	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	121	1	1	1	1	1

Property No.	6	8	9	10	12	13
Property name	ibis Tokyo Shinjuku (Note 1)	The Beach Tower Okinawa	Hakone Setsugetsuka	Dormy Inn Kumamoto	the b suidobashi	Dormy inn·global cabin Asakusa (Note 2)
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	141,133	511,008	294,940	194,460	21,249	63,995
Fixed rent	103,778	511,008	294,340	194,460	21,249	63,395
Variable rent	-	-	-	-	-	-
Other revenue	37,354	-	600	-	-	600
(B) Real estate operating costs subtotal	243,935	177,642	118,707	68,225	38,961	22,711
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	35,492	39,662	21,635	19,107	8,168	6,095
Outsourcing expenses	53,788	-	-	-	1,200	1,200
Nonlife insurance	759	1,454	847	561	252	147
Depreciation and amortization	114,014	134,393	94,694	45,757	28,154	13,804
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	39,880	2,132	1,530	2,799	1,185	1,465
(C) Net real estate operating income = (A) – (B)	(102,802)	333,365	176,232	126,234	(17,711)	41,283
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	1	1	1	1	1

Property No.	14	15	16	18	22	24
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2) (Note 3)	Nara Washington Hotel Plaza (Note 3)	R&B Hotel Ueno Hirokoji (Note 2)	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae	Toyoko Inn Hakata-guchi Ekimae
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	240,000	150,000	97,300	272,674	147,047	141,039
Fixed rent	240,000	146,000	96,504	260,271	134,400	141,039
Variable rent	-	-	-	1,197	12,647	-
Other revenue	0	3,000	795	11,205	-	-
(B) Real estate operating costs subtotal	41,000	52,000	31,008	67,137	37,244	32,910
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	12,000	11,000	12,227	26,772	13,074	11,067
Outsourcing expenses	1,000	3,000	840	1,614	1,200	1,080
Nonlife insurance	0	0	219	545	246	311
Depreciation and amortization	24,000	36,000	16,589	36,776	21,031	18,219
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	1,000	0	1,132	1,427	1,692	2,231
(C) Net real estate operating income = (A) – (B)	199,000	98,000	66,292	205,537	109,802	108,128
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	2	1	1

Property No.	25	26	29	30	31	32
Property name	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo) (Note 2)	Chisun Inn Kamata	Hotel Keihan Universal City (Note 2)	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 5)	Hilton Tokyo Bay (Note 2)	ibis Styles Kyoto Station (Note 1) (Note 2)
Number of operating days	366	366	366	182	366	366
(A) Real estate operating revenue subtotal	97,501	22,167	558,039	232,363	1,978,209	45,934
Fixed rent	93,534	-	Undisclosed (Note 4)	149,002	Undisclosed (Note 4)	42,334
Variable rent	-	22,167	Undisclosed (Note 4)	66,668	Undisclosed (Note 4)	-
Other revenue	3,967	-	Undisclosed (Note 4)	16,692	Undisclosed (Note 4)	3,600
(B) Real estate operating costs subtotal	41,094	16,768	165,167	45,188	468,320	86,307
Land lease and other rent expenses	-	-	21,110	-	123,720	-
Property taxes	11,818	4,796	45,197	12,965	141,696	20,843
Outsourcing expenses	1,200	1,080	4,751	2,406	12,427	25,370
Nonlife insurance	296	126	2,025	183	4,255	498
Depreciation and amortization	26,137	9,732	87,088	12,874	184,769	38,392
Loss on retirement of noncurrent assets	-	-	1,624	-	-	-
Other costs	1,641	1,033	3,370	16,759	1,451	1,201
(C) Net real estate operating income = (A) – (B)	56,407	5,399	392,871	187,174	1,509,889	(40,372)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	-	100.0%	100.0%
(Reference) Number of tenants	1	1	1	-	1	2

Property No.	33	34	35	37	39	40
Property name	ibis Styles Sapporo (Note 1) (Note 2)	Mercure Sapporo (Note 1) (Note 2)	Mercure Okinawa Naha (Note 1) (Note 2)	the b ikebukuro (Note 2)	the b hachioji	the b hakata
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	92,940	154,080	-	187,555	204,505	33,079
Fixed rent	21,196	56,142	-	100,967	38,245	28,022
Variable rent	39,939	21,484	-	84,575	152,238	5,057
Other revenue	31,804	76,453	-	2,012	14,021	-
(B) Real estate operating costs subtotal	161,112	234,203	113,015	60,077	62,404	35,660
Land lease and other rent expenses	-	45	321	-	-	-
Property taxes	37,112	49,704	23,359	22,291	21,363	10,030
Outsourcing expenses	8,028	23,102	20,506	1,200	1,200	1,200
Nonlife insurance	1,182	1,399	976	515	568	321
Depreciation and amortization	82,867	94,814	65,268	32,235	33,513	22,241
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	31,922	65,137	2,582	3,835	5,758	1,866
(C) Net real estate operating income = (A) – (B)	(68,172)	(80,122)	(113,015)	127,477	142,101	(2,580)
(Reference) Occupancy rate	98.3%	95.9%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	11	1	4	10	2

Property No.	41	42	43	44	45	46
Property name	Hotel Francs	Mercure Yokosuka	Okinawa Marriott Resort & Spa (Note 2)	ACTIVE-INTER CITY HIROSHIMA (Note 2)	CANDEO HOTELS UENO-KOEN (Note 2)	Oriental Hotel Fukuoka Hakata Station (Note 2)
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	300,000	112,624	45,833	895,756	349,971	373,331
Fixed rent	300,000	-	45,833	509,729	Undisclosed (Note 4)	35,416
Variable rent	-	77,111	-	170,719	-	337,915
Other revenue	-	35,513	-	215,307	Undisclosed (Note 4)	-
(B) Real estate operating costs subtotal	107,380	137,404	374,863	605,268	66,945	657,905
Land lease and other rent expenses	-	-	-	-	-	222,206
Property taxes	58,570	35,171	78,184	120,419	22,939	20,911
Outsourcing expenses	1,800	19,366	2,400	96,366	1,200	3,000
Nonlife insurance	1,325	1,984	3,023	4,189	608	1,617
Depreciation and amortization	45,185	35,235	290,417	220,573	40,310	407,711
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	498	45,646	838	163,720	1,886	2,458
(C) Net real estate operating income = (A) – (B)	192,619	(24,779)	(329,030)	290,487	283,025	(284,573)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	99.8%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	40	1	1

Property No.	47	48	49	50	51	52
Property name	Holiday Inn Osaka Namba (Note 2)	HOTEL ASCENT FUKUOKA (Note 2)	Hilton Nagoya	Hilton Tokyo Narita Airport	International Garden Hotel Narita (Note 2)	Hotel Nikko Nara (Note 2)
Number of operating days	366	366	366	366	366	366
(A) Real estate operating revenue subtotal	48,000	468,119	816,688	123,748	136,052	35,000
Fixed rent	48,000	372,640	Undisclosed (Note 4)	37,000	28,000	35,000
Variable rent	-	-	Undisclosed (Note 4)	86,748	108,052	-
Other revenue	-	95,478	Undisclosed (Note 4)	-	-	-
(B) Real estate operating costs subtotal	240,538	152,242	783,078	309,357	192,916	194,944
Land lease and other rent expenses	-	23,331	222,401	-	-	-
Property taxes	45,222	31,625	105,069	80,058	39,400	40,774
Outsourcing expenses	1,560	14,892	99,455	2,520	2,280	2,610
Nonlife insurance	1,400	615	4,206	4,188	1,888	3,144
Depreciation and amortization	191,519	35,246	168,043	221,541	148,306	146,914
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	836	46,530	183,901	1,048	1,040	1,500
(C) Net real estate operating income = (A) - (B)	(192,538)	315,876	33,609	(185,608)	(56,863)	(159,944)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	6	4	1	1	1

Property No.	53	54
Property name	Hotel Oriental Express Osaka Shinsaibashi (Note 2)	Hilton Tokyo Odaiba (Note 2)
Number of operating days	366	366
(A) Real estate operating revenue subtotal	9,200	258,300
Fixed rent	9,200	258,300
Variable rent	-	-
Other revenue	-	-
(B) Real estate operating costs subtotal	24,142	525,418
Land lease and other rent expenses	-	-
Property taxes	8,385	245,585
Outsourcing expenses	2,160	120
Nonlife insurance	210	5,439
Depreciation and amortization	12,892	273,439
Loss on retirement of noncurrent assets	-	-
Other costs	494	834
(C) Net real estate operating income = (A) - (B)	(14,942)	(267,118)
(Reference) Occupancy rate	100.0%	100.0%
(Reference) Number of tenants	1	1

(Note 1) Variable rent includes income from management contracts. For details of the management contract, please refer to “C. Overview of the hotel business; a. Rent structures of hotels with variable rent, management contract or revenue sharing” on page 51.

(Note 2) Temporarily closed for a certain period of time during the fiscal year under review due to the impact of COVID-19.

(Note 3) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and is thus rounded down to the nearest million yen.

(Note 4) Rent income, etc. is not disclosed as consent on disclosure has not been obtained from the tenant with whom a lease contract has been concluded..

(Note 5) Sotetsu Fresa Inn Shimbashi-Karasumoriguchi was sold on July 1, 2020.

(Note 6) The property numbers of assets that were sold before the end of the previous fiscal year are intentionally omitted.

C. Overview of the hotel business

a. Rent structures of hotels with variable rent, management contract or revenue sharing

	Property No.	Name	Rent type	Method of calculating variable rent and income from management contracts		
				FY2020	FY2021	FY2022 and after
The HMJ Group Hotels (Note 1)	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	Total GOP of The Five HMJ Hotels x 89.78% – fixed rent for January	AGOP (Note 3) x 86.0%	(Total AGOP of The Five HMJ Hotels – base amount (¥4,120 million/year (Note 4))) x 85.0%
	2	Oriental Hotel Tokyo Bay			AGOP x 79.0%	
	3	Namba Oriental Hotel			AGOP x 91.0%	
	4	Hotel Nikko Alivila			AGOP x 74.0%	
	5	Oriental Hotel Hiroshima			AGOP x 89.0%	
	43	Okinawa Marriott Resort & Spa	Variable/Fixed	GOP x 82.92% – fixed rent for January	AGOP x 89.0%	(AGOP – base amount (¥655 million/year)) x 95.0%
	44	Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA)	Variable/Fixed (Note 2)	GOP x 79.03% – fixed rent for January	AGOP x 93.0%	(AGOP – base amount (¥360 million/year)) x 90.0%
	46	Oriental Hotel Fukuoka Hakata Station	Variable/Fixed	GOP x 96.98% – fixed rent for January	AGOP x 97.0%	(AGOP – base amount (¥442 million/year)) x 98.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	GOP x 90.15% – fixed rent for January	AGOP x 98.0%	(AGOP – base amount (¥580 million/year)) x 97.0%
	50	Hilton Tokyo Narita Airport	Variable/Fixed	GOP x 83.59% – fixed rent for January	AGOP x 95.0%	(AGOP – base amount (¥450 million/year)) x 93.0%
	51	International Garden Hotel Narita	Variable/Fixed	GOP x 95.35% – fixed rent for January	AGOP x 95.0%	(AGOP – base amount (¥360 million/year)) x 98.0%
	52	Hotel Nikko Nara	Variable/Fixed	GOP x 90.05% – fixed rent for January	AGOP x 95.0%	(AGOP – base amount (¥440 million/year)) x 95.0%
	53	Hotel Oriental Express Osaka Shinsaibashi	Variable/Fixed	GOP x 87.11% – fixed rent for January	AGOP x 87.0%	(AGOP – base amount (¥128 million/year)) x 91.0%
	54	Hilton Tokyo Odaiba	Variable/Fixed	GOP x 92.10% – fixed rent for January	AGOP x 97.0%	(AGOP – base amount (¥1,660 million/year)) x 98.0%
The Accor Group Hotels	6	ibis Tokyo Shinjuku	Management contract (Note 5)	Amount equivalent to GOP		
	32	ibis Styles Kyoto Station		Amount equivalent to GOP		
	33	ibis Styles Sapporo		Amount equivalent to GOP		
	34	Mercure Sapporo		Amount equivalent to GOP		
	35	Mercure Okinawa Naha		Amount equivalent to GOP		
	42	Mercure Yokosuka	Variable	Amount linked to GOP (Note 6)		
The Ishin Group Hotels	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 6)		
	37	the b ikebukuro				
	39	the b hachioji				
	40	the b hakata				
Other hotels with variable rent or revenue sharing	18	Comfort Hotel Tokyo Higashi Nihombashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	25	Chisun Hotel Kamata (former Hotel Vista Kamata Tokyo) (Note 7)	Fixed + Revenue sharing	When hotel total sales from January 1 to December 31 of every year exceeds ¥270 million, the amount arrived at when the amount exceeding ¥270 million is multiplied by 32.5%		
	26	Chisun Inn Kamata	Variable	Amount that is the monthly GOP multiplied by 86.0% (¥0 if the amount is below ¥0).		
	29	Hotel Keihan Universal City	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 6)		
	49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 6)		

(Note 1) Variable rents for the HMJ Group Hotels are those stated in the memorandum of understanding concerning the fixed-term lease contracts and the revised fixed-term lease contracts concluded on August 25, 2020.

(Note 2) The indicated structures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

- (Note 3) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.
- (Note 4) For the purpose of payments of variable rent from each hotel, etc. JHR has set an individual AGOP base amount for each hotel. The breakdown of the AGOP base amount of The Five HMJ Hotels (¥4,120 million/year) is as follows.
Kobe Meriken Park Oriental Hotel: ¥690,000 thousand, Oriental Hotel Tokyo Bay: ¥1,060,000 thousand, Namba Oriental Hotel: ¥890,000 thousand, Hotel Nikko Alivila: ¥1,250,000 thousand, and Oriental Hotel Hiroshima: ¥230,000 thousand
- (Note 5) The management contract structure is a structure for hotel real estate owned by JHR in which JHR entrusts an operator to operate the hotel and takes in the outcome of that business as real estate operating revenue. Specifically, JHR, the owner of the hotel real estate, concludes a management contract with an operator and entrusts the operator with the tasks necessary to run the hotel business. JHR receives the hotel revenue achieved from the hotel business (operation) by the operator and, at the same time, pays a management fee to the operator. This hotel revenue achieved is recognized as “real estate operating revenue through management contract” and is equivalent to the rent that is the real estate operating revenue under the leasing structure.
- (Note 6) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee, etc.
- (Note 7) The rent structure for Hotel Vista Kamata Tokyo through December 31, 2020 is indicated. Hotel Vista Kamata Tokyo changed its name to Chisun Hotel Kamata on January 1, 2021 due to rebranding following cancellation of lease contract. After the property name is changed to Chisun Hotel Kamata, the rent structure will be the same as that of Chisun Inn Kamata.

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2020, through December 31, 2020, based on the data provided by the hotel lessees, etc. While these indicators of the hotels are among the indicators that show the operating status of the rooms departments, please note that they do not necessarily represent the operating revenue and the ability to bear rent, etc. of the respective hotels, as the room rates and profit margins, etc. of the respective rooms available for sale are not uniform, among other reasons. As such, the indicators are no more than the reference figures.

	Kobe Meriken Park Oriental Hotel		Oriental Hotel tokyo bay (Note 4)		Namba Oriental Hotel (Note 4)		Hotel Nikko Alivila (Note 4)		Oriental Hotel Hiroshima (Note 4)		The Five HMJ Hotels Total/Average	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	48.8%	-	40.3%	-	17.1%	-	40.7%	-	51.5%	-	40.0%	-
ADR (Note 1)	18,914	-	15,293	-	13,663	-	24,169	-	8,166	-	16,895	-
RevPAR (Note 2)	9,225	-	6,167	-	2,330	-	9,837	-	4,208	-	6,756	-
Total sales	2,853	100.0	2,291	100.0	918	100.0	2,636	100.0	826	100.0	9,525	100.0
Rooms department	1,091	38.2	1,153	50.3	220	24.0	1,429	54.2	350	42.3	4,243	44.5
Food & beverage department	1,385	48.5	740	32.3	16	1.7	837	31.8	405	49.0	3,382	35.5
Tenant department	77	2.7	144	6.3	622	67.8	2	0.1	22	2.6	868	9.1
Other departments (Note 3)	300	10.5	255	11.1	60	6.6	367	13.9	50	6.1	1,033	10.8
GOP	195	6.8	(149)	(6.5)	463	50.4	294	11.1	(108)	(13.0)	695	7.3

	Okinawa Marriott Resort & Spa (Note 4)		Sheraton Grand Hiroshima Hotel (Note 4) (Note 5)		Oriental Hotel Fukuoka Hakata Station (Note 4)		Holiday Inn Osaka Namba (Note 4)		Hilton Tokyo Narita Airport		International Garden Hotel Narita (Note 4)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	31.7%	—	38.9%	—	44.5%	—	16.5%	—	43.3%	—	36.0%	—
ADR (Note 1)	19,171	—	22,663	—	13,058	—	11,792	—	12,281	—	7,989	—
RevPAR (Note 2)	6,083	—	8,818	—	5,814	—	1,951	—	5,320	—	2,875	—
Total sales	1,403	100.0	1,670	100.0	1,145	100.0	272	100.0	1,653	100.0	712	100.0
Rooms department	804	57.3	768	46.0	470	41.1	224	82.3	1,067	64.6	487	68.5
Food & beverage department	338	24.1	797	47.7	346	30.2	—	—	404	24.4	143	20.1
Tenant department	32	2.3	—	—	257	22.4	34	12.5	38	2.3	4	0.6
Other departments (Note 3)	229	16.3	104	6.3	72	6.3	14	5.2	144	8.7	77	10.8
GOP	(70)	(5.0)	243	14.5	385	33.6	27	10.0	148	9.0	143	20.1

	Hotel Nikko Nara (Note 4)		Hotel Oriental Express Osaka Shinsaibashi (Note 4)		Hilton Tokyo Odaiba (Note 4)		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	29.7%	—	10.8%	—	32.6%	—	35.8%	—
ADR (Note 1)	12,818	—	7,736	—	27,458	—	16,081	—
RevPAR (Note 2)	3,812	—	833	—	8,951	—	5,757	—
Total sales	1,071	100.0	49	100.0	3,646	100.0	21,146	100.0
Rooms department	460	43.0	38	76.5	1,484	40.7	10,046	47.5
Food & beverage department	539	50.3	2	4.0	1,584	43.4	7,535	35.6
Tenant department	11	1.1	—	—	131	3.6	1,375	6.5
Other departments (Note 3)	61	5.7	10	19.5	447	12.3	2,190	10.4
GOP	(102)	(9.5)	(35)	(69.9)	(109)	(3.0)	1,326	6.3

(Note 1) ADR: Represents average daily rate, which is calculated by dividing revenue for rooms for a certain period (including service charges) by the total number of rooms sold during the period.

Service charges are 10% for 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), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station; 12% for Hilton Tokyo Narita Airport; and 13% for Hilton Tokyo Odaiba. Holiday Inn Osaka Namba and Hotel Oriental Express Osaka Shinsaibashi do not request service charges. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

(Note 3) Figures for the other departments include sales of the department for sale of goods.

(Note 4) The properties were temporarily closed for a certain period of time during the fiscal year under review due to the impact of COVID-19, but the occupancy rate has been calculated by including the closed period.

(Note 5) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 6) For Total/Average of the HMJ Group Hotels, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees, etc.

(Note 7) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to the nearest whole number. Sales and GOP are rounded off to the nearest million yen. For the ratio to total sales, the ratio of sales in each department to total sales is rounded off to one decimal place.

(2) Status of capital expenditures

a. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work planned as of the end of the fiscal year under review. Expenditures are expected to total ¥3,534 million, which consists of capital expenditures of ¥3,522 million (Note) and repair expenses of ¥12 million, for the next fiscal year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)	
			Total amount	Total amount paid
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renovation of prefabricated bathrooms in guest rooms	From April 2021 to July 2021	55	—
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning equipment	From March 2021 to July 2021	80	—
Hotel Keihan Universal City (Osaka-shi, Osaka)	Renovation of guest rooms	From April 2021 to July 2021	160	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Painting of exterior walls	From March 2021 to April 2021	60	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of guest rooms, etc.	From October 2021 to December 2021	500	—
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renovation of guest rooms, etc.	From April 2021 To June 2021	265	—
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of furniture in guest rooms	From April 2021 to June 2021	55	—
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of heat-source equipment for air conditioning facilities	From April 2021 to May 2021	73	—
International Garden Hotel Narita (Narita-shi, Chiba)	Renewal of air conditioning units	From October 2021 to November 2021	55	—
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renewal of central monitoring device	From March 2021 to June 2021	63	—
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of information and telecommunication equipment	From April 2021 to June 2021	100	—
Total			1,467	—

(Note) New construction and renewal work includes that for buildings, attached facilities, etc. as well as items classified as furniture and fixtures. The scheduled period of the above planned renovation work and whether or not the renovation work will be performed may change.

b. Capital expenditures during the year (Note)

Major construction work conducted by JHR during the fiscal year under review that represents capital expenditures is as below. Capital expenditures for the fiscal year under review totaled ¥1,665 million, and repair expenses that were accounted for as expense in the fiscal year under review totaled ¥29 million. In aggregate, ¥1,694 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Hotel Nikko Alivila (Nakagamigun, Okinawa)	Additional installation of sewage tank	From March 2020 to June 2020	72
Dormy Inn Kumamoto (Kumamoto-shi, Kumamoto)	Renewal of air conditioning equipment	From May 2020 to June 2020	67
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of air conditioning equipment	From May 2020 to July 2020	52
HOTEL ASCENT FUKUOKA (Fukuoka-shi, Fukuoka)	Renewal of air conditioning equipment	From March 2020 to March 2020	90
Hilton Nagoya (Nagoya-shi, Aichi)	Work on plumbing equipment	From March 2020 to May 2020	57
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of elevators	From June 2020 to December 2020	51
Hilton Tokyo Odaiba (Minato-ku, Tokyo)	Renovation of banquet rooms	From December 2019 to March 2020	92
Total			483

(Note) New construction and renewal work include those for buildings, attached facilities, etc. as well as items classified as furniture and fixtures.