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For immediate release

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Notice Concerning Acquisition of Domestic Real Estate (Comfort Hotel Takamatsu)

Hoshino Resorts REIT, Inc. (hereinafter “HRR”) announces that Hoshino Resort Asset Management Co., Ltd., the asset management company, (hereinafter the “Asset Management Company”), to which HRR entrusts its asset management, has made a decision to acquire the following property (hereinafter the “Asset to Be Acquired”). Please also refer to the Appendix attached at the end of this document for details such as an overview of the Asset to Be Acquired.

1. Overview of Acquisition

Category (Note 1)		Property No. (Note 2)	Property name	Location	Planned acquisition price (million yen) (Note 3)	Seller (Note 4)
Properties operated by outside operators	Other	O-48	Comfort Hotel Takamatsu	Takamatsu-shi, Kagawa	2,050	Not disclosed

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

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

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

(Note 4) The sellers are multiple domestic corporations. Since consent for disclosing their names has not been obtained from them, it is shown as “Not disclosed.” The same shall apply hereinafter. The sellers do not fall under the category of an interested person, etc. as provided in Article 201 of the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951, including subsequent amendments; hereinafter referred to as the “Investment Trust Act”) and in Article 123 of the Order for Enforcement of the Act on Investment Trusts and Investment Corporations (Cabinet Order No. 480 of 2000, including subsequent amendments; hereinafter referred to as the “Enforcement Order of the Investment Trust Act”), nor do the sellers fall under the category of an interested person, etc. as set forth in the “Regulations for Transactions with Interested Persons, etc.” which are the internal provisions of the Asset Management Company.

(1) Date of conclusion of the sales and purchase agreement: November 25, 2022

(2) Scheduled acquisition date: November 30, 2022 (delivery settlement date)

(3) Sellers: Not disclosed

(4) Acquisition funds: Borrowings and cash on hand (planned)

(5) Payment method: Full payment upon delivery (planned)

(6) Collateral setting: None

2. Reason for acquisition

HRR makes focused investments in facilities that are likely to secure steady cash flows over a long-term period.

Of the hotels, ryokans and ancillary facilities (Note) operated by Hoshino Resorts Group (Hoshino Resorts Inc., its parent company and subsidiaries; the same shall apply hereinafter), HRR believes that three brands of “HOSHINOYA,” “KAI” and “Hoshino Resorts RISONARE,” which are the core brands, are the facilities that can secure long-term and stable cash flows.

In addition, regarding hotels, ryokans and ancillary facilities operated by outside operators, HRR has a policy to achieve external growth while ensuring the stability of earnings by actively investing in facilities that are expected to be used stably, as well as to secure long-term and stable cash flows. Based on this policy, HRR has decided to obtain the Asset to Be Acquired.

The Asset to Be Acquired is a hotel that opened in March 2022 and is operated by Greens Co., Ltd., which has a high level of operational capability. Although the hotel has been in operation for less than 8 months, the occupancy rate for the latest three months from August to October of this year has remained steady at 81.2%. Located in the center of Takamatsu-shi, Kagawa Prefecture, a core city in the Shikoku region, the hotel is highly convenient for sightseeing in the city and remote islands in the Seto Inland Sea, so HRR believes the hotel will capture a certain amount of demand for both leisure and business.

HRR believes that obtaining the Asset to Be Acquired will further diversify its portfolio in terms of the location of facilities, the business model and brand, and operators, thereby reducing the risk of a significant decline in cash flows due to changes in travelers’ needs or trends, disasters, or domestic and international economic trends, compared with previous periods, and the stability of HRR’s earnings will be strengthened.

Please also refer to the Appendix attached at the end of this document for details such as an overview of the Asset to Be Acquired.

(Note) “Hotel” refers to accommodation facilities with mainly Western-style structures and facilities, “ryokan” refers to accommodation facilities with mainly Japanese-style structures and facilities, and “Ancillary facilities” refers to large-scale facilities such as ski resorts, golf courses, swimming pools, and stores incidental to hotels or ryokans. The same shall apply hereinafter.

3. Details of the Asset to Be Acquired

An overview of the Asset to Be Acquired is as shown in the table below.

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

a. Description of the “Overview of Specified Asset” column

- For “Use,” accommodation facilities mainly with Western-style structures and facilities are indicated as “hotel” while those mainly with Japanese-style structures and facilities are indicated as “ryokan” based on the current conditions of the property. Since the description in “Use” is a classification to grasp the overall characteristics of each facility in accordance with the investment policy of HRR, such may differ from the use of individual buildings comprising the facility stated in the real estate registry.
- “Scheduled acquisition date” indicates the scheduled acquisition date of the Asset to Be Acquired, but it is subject to change upon agreement between HRR and the current owner(s).
- “Type of specified asset” indicates the type of real estate and other assets as specified assets.
- “Planned acquisition price” indicates the sales/purchase price of the Asset to Be Acquired stated in the sales and purchase agreement (excluding consumption taxes, local consumption taxes and expenses such as transaction commissions).
- “Appraisal value (Appraisal date)” is the real estate appraisal value and appraisal date stated in the real estate appraisal report for the Asset to Be Acquired obtained from JLL Morii Valuation & Advisory K.K.
- “Location (residential indication),” in principle, indicates the residential indication. In cases where there is no residential indication, it is the building location (if several, one of the locations) in the real estate registry.
- “Transportation” is based on the real estate appraisal report on the Asset to Be Acquired, which was obtained from JLL Morii Valuation & Advisory K.K.
- “Lot number” of land is the building location (if several, one of the locations) in the registry.
- “Building coverage ratio” of land is, in principle, the ratio of building area to area of the building site as stipulated in Article 53 of the Building Standards Act (Act No. 201 of 1950, including amendments thereto) (hereinafter the “Building Standards Act”) and indicates the upper limit of the building coverage ratio

stipulated by city planning according to type of use district, etc. (designated building coverage ratio) (if several, all of them). The designated building coverage ratio may be relaxed, raised or reduced due to reasons such as the existence of fireproof structures in a fire prevention district, and thus may differ from a building coverage ratio that actually applies.

- “Floor-area ratio” of land is the ratio of total floor area of the building to the site area as stipulated in Article 52 of the Building Standards Act and indicates the upper limit of the floor-area ratio stipulated by city planning according to the type of use district, etc. (designated floor-area ratio) (if several, all of them). The designated floor-area ratio may be relaxed, raised or reduced due to reasons such as width of roads connected to the site, and thus may differ from a floor-area ratio that actually applies.
- “Use district” of land is the type of use district classified (if several, all of them) in accordance with Article 8, Paragraph 1, Item 1 of the City Planning Act (Act No. 100 of 1968, including amendments thereto).
- “Site area” of land is based on the description in the registry (if there is any leased land, the leased area is included; the leased area is based on the description in the lease agreement) and may differ from the present state.
- “Type of ownership” of land and building indicates the type of rights held by HRR.
- “Completion date” of building is the date of inspection of the completion of construction for the main building as per the inspection certificate under the Building Standard Law.
- “Structure / floors” of building is based on the description in the registry for the main building.
- “Total floor area” of building is based on the description in the registry, including floor area of annex buildings.
- “Building engineer” and “Constructors” of building indicate the company names at the time of building engineering and construction of the main building.
- “Leasable floor area” is the area equivalent to HRR’s ownership interest out of the area that can be rented, and is indicated in the lease agreement that will be effective as of the scheduled acquisition date of the Asset to Be Acquired by HRR, and the written agreement that will be concluded in connection therewith or in the drawings of the said property.
- “Occupancy rate” is the occupancy rate expected as of the scheduled acquisition date (the ratio of the total leased floor area to the total leasable floor area). If a lease agreement with suspensive conditions of becoming effective under the condition of HRR’s acquisition has been concluded between HRR and the tenant, the occupancy rate is indicated assuming that leasing has started on the scheduled acquisition date.
- “Major tenant” indicates the party with the largest leased area among those who lease the property from HRR under the lease agreement that will be effective on the scheduled acquisition date of the Asset to Be Acquired by HRR.
- “No. of tenants” indicates the number of parties who lease the property from HRR based on the lease agreement that is expected to be effective on the scheduled acquisition date of the Asset to Be Acquired by HRR. However, this excludes those planning to lease part of the site or the building for the purpose of parking or installing antennas.
- “No. of guest rooms” indicates the number of guest rooms that can be used for accommodation.
- “No. of sublease tenants” is the number of parties that are scheduled to receive leases (subleases) from parties that lease the property from HRR based on the lease agreements that are scheduled to be in effect as of the scheduled acquisition date of the Asset to Be Acquired by HRR. However, this excludes those planning to lease (sublease) part of the site or the building for the purpose of parking or installing antennas.

b. Explanation of the “Lease Summary” column

- The “Lease Summary” column indicates the content of the lease agreement with the tenant who is scheduled to lease the hotel or ryokan and the written agreement to be executed in connection with the lease agreement with respect to the Asset to Be Acquired.

Hoshino Resorts REIT, Inc.

Comfort Hotel Takamatsu			Category		Properties operated by outside operators (Other)
			Use		Hotel
Overview of Specified Asset					
Scheduled acquisition date		November 30, 2022	Type of specified asset		Real estate
Planned acquisition price		2,050,000,000 yen	Appraisal value (Appraisal date)		2,220,000,000 yen (October 31, 2022)
Location (residential indication)		2-10 Nakashinmachi, Takamatsu-shi, Kagawa Prefecture			
Transportation		Approx. 700 m from “Kawaramachi Station” on the Kotoden Kotohira Line			
Land	Lot number	2-10 Nakashinmachi, Takamatsu-shi, Kagawa Prefecture	Building	Completion date	January 2022
	Building coverage ratio	80%		Structure/ floors	11-storied building with steel frame structure and flat roof
	Floor-area ratio	600%		Total floor area	4,291.09 m²
	Use district	Commercial area		Building engineer	Daikyo Anabuki Construction First-Class Architect’s Office
	Site area	747.94 m²		Constructor	Daikyo Anabuki Construction, Inc.
	Type of ownership	Ownership		Type of ownership	Ownership
Leasable floor area		4,291.09 m²	Occupancy rate		100%
Main tenant		Greens Co., Ltd.	No. of tenants		1
No. of guest rooms		163	No. of sublease tenants		0

Lease Summary	
Lessee	Greens Co., Ltd.
Type of contract	Fixed-term building lease agreement
Contract period	March 1, 2022 to the end of February 2042
Leased floor area	4,291.09 m ²
Rent	<p>Annual fixed rent: 112,820,400 yen</p> <p>Variable rent: As a variable rent for each fiscal year (one year from July 1 of the current year to June 30 of the following year), either of the following amounts of money according to the annual GOP amount of the business conducted at the facility and the business incidental thereto</p> <ul style="list-style-type: none"> ① If the annual GOP amount is less than or equal to the prescribed amount: None ② If the annual GOP amount exceeds the prescribed amount: An amount equivalent to 50% of such excess <p>(Note) “Annual GOP” refers to the amount obtained by deducting costs related to sales and revenue, etc. and other operating expenses (those directly incurred in connection with hotel operations at the facility) from sales and revenue, etc. of the facility for a certain period. Since the lessee has not consented to the disclosure of the annual GOP amount, which is the basis for calculating the variable rent, it is stated as “prescribed amount.”</p> <p>Parking lot rent: 25,000 yen per month per lot</p>
Security deposit and guarantee deposit	Guarantee deposit: 6 months fixed rent
Renewal at the end of contract period	The contract will end at the end of the contract period with no renewal.
Rent revision	The rent shall not be revised during the term of this lease. However, after 10 years have passed from the commencement date of this lease, if the rent is found to be significantly inappropriate due to price fluctuations, increases/decreases in taxes and other public charges on land and buildings, and other circumstances arising from changes in general economic conditions, the lessor and the lessee may request the other party to discuss the revision of the rent, and if both parties reach an agreement, the rent will be revised.
Midterm cancellation	The lessor and the lessee may not, in principle, cancel the Lease Agreement during the contract period. However, the lessor and the lessee may terminate the Lease Agreement by paying the specified termination penalty determined according to the termination date.
Penalty	If the Lease Agreement is terminated due to reasons attributable to the lessee, the lessee shall pay 50% of the depreciable residual value of the buildings of the facilities to HRR, the lessor, as a penalty.
Method for re-contracting	The contract will end at the end of the contract period without renewal; however, re-contracting is possible through discussion between the concerned parties.

4. Details of Sellers

Although the sellers of the Asset to Be Acquired are multiple domestic corporations, they are not disclosed because they have not consented to the disclosure of their names. The sellers do not fall under the category of an interested person, etc. as provided in Article 201 of the Investment Trust Act and in Article 123 of the Enforcement Order of the Investment Trust Act, nor do the sellers fall under the category of an interested person, etc. as set forth in the “Regulations for Transactions with Interested Persons, etc.” which are the internal provisions of the Asset Management Company.

5. Transactions with Interested Persons, etc.

Not applicable

6. Status of Property Acquirer, etc.

The Asset to Be Acquired will not be acquired from any person who has a special interest in HRR and the Asset Management Company.

7. Future Outlook

The scheduled acquisition date of the Asset to Be Acquired is November 30, 2022, and the acquisition of the Asset to Be Acquired will have no impact on the future outlook of the financial results for the fiscal period ended October 2022 (May 1, 2022 to October 31, 2022).

The impact of the acquisition of the Asset to Be Acquired on the financial results for the fiscal period ending April 2023 (November 1, 2022 to April 30, 2023) will be immaterial, and there is no change from the “(REIT) Financial Report for Fiscal Period Ended April 2022” released on June 15, 2022.

8. Appraisal Report Summary

Appraisal Report Summary		
Real estate appraisal agency	JLL Morii Valuation & Advisory K.K.	
Appraisal value	2,220,000,000 yen	
Appraisal date	October 31, 2022	
	Appraisal value	Remarks, etc.
Direct capitalization method		
(1) Operating revenue ((i) – (ii) – (iii))	137,470,000 yen	-
(i) Potential gross revenue (Rent revenue and parking revenue)	137,470,000 yen	-
(ii) Amount equivalent to vacancy loss	0 yen	Not recorded because it is assumed to be leased over the long term based on the contents of the contract.
(iii) Amount equivalent to bad debt loss	0 yen	Judged that it is not necessary to record bad debt losses, taking into consideration the status of the lessee and other factors.
(2) Operating expenses ((iv) + (v) + (vi) + (vii) + (viii) + (ix) + (x) + (xi))	12,273,000 yen	-
(iv) Maintenance and administration cost	0 yen	Not recorded as it will be the tenant's burden.
(v) Utility expenses	0 yen	Not recorded as it will be the tenant's burden.
(vi) Repair expenses	2,773,000 yen	Recorded 30% of the leveled amount based on the judgment that the ER estimate is appropriate.
(vii) Property management fee	0 yen	Not recorded as it will be the tenant's burden.
(viii) Tenant recruitment expenses, advertising expenses, etc.	0 yen	-
(ix) Taxes and public dues	9,226,000 yen	Land: Considered the rate of change based on the actual amount presented (adopted the 11th year of the DCF analysis period). Building: Appraised considering depreciation over time. Depreciable assets: Appraised considering depreciation over time.
(x) Non-life insurance premium	274,000 yen	Recorded based on the judgement that the presented materials are appropriate (equivalent to 0.02% of the replacement cost).
(xi) Other expenses	0 yen	-
(3) Net operating income ((i) – (ii))	125,197,000 yen	-
(4) Gain on investment of guarantee deposits, etc.	564,000 yen	Appraised by multiplying the amount of guarantee deposit, etc. at full occupancy less the amount equivalent to vacancy by the yield of 1.0%.
(5) Capital expenditure	6,471,000 yen	Recorded 70% of the leveled amount based on the judgment that the ER estimate is appropriate.
(6) Net revenue ((iii) + (iv) – (v))	119,290,000 yen	-
(7) Capitalization rate	5.3%	-
Direct capitalization value	2,250,000,000 yen	-
Price by DCF method	2,180,000,000 yen	-
Discount rate	5.1%	-
Terminal capitalization rate	5.5%	-
Integrated value by using cost method	1,930,000,000 yen	-
Ratio of land	22.7%	-
Ratio of building	77.3%	-
Other matters appraisal agency noted upon appraisal	Not applicable	

* The HRR website address: <https://www.hoshinoresorts-reit.com/en/>

<Appendix>

Reference material: Summary of Building Condition Evaluation Report and Earthquake Risk Assessment Report of the Asset to Be Acquired

Reference material: Summary of Building Condition Evaluation Report and Earthquake Risk Assessment Report of the Asset to Be Acquired

Property no.	Property name	Investigator	Engineering report date	Short-term repair expenses (Thousand yen) (Note 1) (Note 2)	Long-term repair expenses (Annual average) (Thousand yen) (Note 1) (Note 3)
O-48	Comfort Hotel Takamatsu	Tokio Marine dR Co., Ltd.	October 2022	-	9,244

(Note 1) "Short-term repair expenses" and "Long-term repair expenses (annual average)" are based on the descriptions in the Building Condition Evaluation Report.

(Note 2) "Short-term repair expenses" are repair and renewal expenses required when implementing repairs and renewals within about one year due to progressed deterioration, excluding expenses for normal repairs or interior/facility renewals, based on the Building Condition Evaluation Report investigated and prepared by the investigator.

(Note 3) "Long-term repair expenses (annual average)" are the amount of repair and renewal expenses for the next 12 years from the time of the investigation, based on the Building Condition Evaluation Report surveyed and prepared by the investigator. The figure has been converted to an annual average and rounded to the nearest thousand yen by HRR.

Property no.	Property name	Investigator	Investigation date	PML value (expected maximum loss ratio) (%)
O-48	Comfort Hotel Takamatsu	Tokio Marine dR Co., Ltd.	September 8, 2022	1.7

Comfort Hotel Takamatsu

Property Highlights

- Acquired a high-quality, relatively new property with a post-depreciation yield of 4.4% and a ratio of 92.3% to the real estate appraisal value. Securing a post-depreciation yield of 3.4% even for fixed rent alone (including parking lot rent).
- Operated by Greens Co., Ltd., which has strong management capabilities. The three Greens properties originally owned by HRR have achieved excellent operational performance compared with the market through the COVID-19 pandemic, and the guest room occupancy rate for the most recent three months (August to October 2022) is strong at over 80%. Even during the COVID-19 pandemic, the rent was paid according to the contract. The acquired property also secures stable demand with a guest room occupancy rate of 81.2% for the most recent 3 months.
- Located in the city of Takamatsu, the prefectural capital of Kagawa Prefecture, the property is expected to capture both leisure and business demand. Especially in terms of leisure, in addition to being highly convenient for sightseeing in the city, it also has good access to "Takamatsu Port", which serves as a base for sightseeing on remote islands in the Seto Inland Sea. The contemporary art festival "Setouchi Triennale" has a high rate of repeat visitors, and the number of visitors from overseas is on the rise*, and further increases in tourists are expected.
- In terms of business, it is located along National Route 30 (commonly known as Chuo-dori), which is lined with many offices that support the economy of the Shikoku region, and acquisition of commensurate demand for business trips is expected.
- As the gateway to Shikoku, Takamatsu Airport has several scheduled international flights^(Note) (Taipei, Seoul, Shanghai, and Hong Kong), and is expected to capture the demand for inbound tourism.

* Source: Setouchi Triennale 2019 Summary report by Setouchi Triennale Executive Committee Secretariat

Location	Takamatsu-shi, Kagawa Prefecture	Lease agreement period	20 years
Completion date	January 2022	Appraisal NOI yield	6.1%
Scheduled acquisition date	November 30, 2022	Appraisal NCF yield	5.8%
Total number of guest rooms	163	Yield after depreciation	4.4%
Lessee	Greens Co., Ltd.	Most recent operating results (August to October 2022)	
Rent type	Fixed + Variable		
Operator	Greens Co., Ltd.		
Planned acquisition price	2,050 million yen		
Real estate appraisal value	2,220 million yen	Occupancy rate	81.2%
		RevPAR	7,187 yen
		ADR	8,850 yen

(Note) Flights to/from Seoul have resumed operations from Wednesday, November 23, 2022. As of Thursday, November 24, flights to/from Taipei are scheduled to resume operations on Thursday, January 19, 2023, and flights to /from Hong Kong and Shanghai are undecided. Please check the Takamatsu Airport website for the latest flight status.

