ORIX JREIT Inc.

For Immediate Release

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ORIX JREIT Announces Disposition of a Property
“Hotel Nikko Himeji”

TOKYO, August 25, 2023— ORIX JREIT Inc. (“OJR”) announced that our asset management company, ORIX Asset Management Corporation (“OAM”), passed a resolution on the disposition of a property described below.

1. Disposition Summary

Property name	Hotel Nikko Himeji
Specified asset category	Real estate trust beneficiary interest
Type	Hotels and others
Area	Other areas (Note2) (Himeji-shi, Hyogo)
Disposition price	1,832 million yen (Note3)
Appraisal value (Note4)	3,050 million yen (Date of value: February 28, 2023, Appraiser: Japan Real Estate Institute) <Reference> 1,780 million yen (Date of value: July 31, 2023, Appraiser: Tanizawa Sogo Appraisal Co., Ltd.)
Book value	5,062 million yen (Note3, 5)
Estimated gain/loss on disposition	-3,258 million yen (Note3, 5)
Buyer	Not-disclosed (Note 6)
Contract date	August 25, 2023
Disposition date	August 31, 2023
Existence of intermediary	Yes

Notes:
1. “Property” refers to the property indicated above. “Disposition” refers to the disposition of the Property.
2. “Other areas” refers to areas other than the Greater Tokyo Area (Tokyo, Kanagawa, Saitama and Chiba prefectures).
3. Figures are rounded down to the nearest million yen.
4. The appraisal value as of the end of the most recent fiscal period is stated. For reference, the latest appraisal value obtained from an appraiser different from the appraisal as of the end of the most recent fiscal period is stated.
5. Book value is an estimate as of the disposition date. Estimated gain or loss on disposition is pro forma amount based on the book value and assumed disposition expenses. The amounts are subject to change.
6. The buyer is a Japanese company, however, the consent of the buyer could not be obtained, including the name of the company.

2. Future Outlook

The Disposition is forecasted to result in a loss on disposition of 3,258 million yen in the 43rd fiscal period (March 1, 2023 – August 31, 2023). OJR is assuming utilizing internal reserves, hence there will be no revisions to the earnings and distribution forecasts for the 43rd fiscal period (March 1, 2023 – August 31, 2023) announced in “Financial Results for the 42nd Fiscal Period” dated April 19, 2023.

The internal reserves are expected to maintain a certain balance after using for equivalent to the loss on disposition, and there will be no operational disruption of OJR.

Furthermore, with regard to the 44th fiscal period (September 1, 2023 – February 29, 2024), the impact of the Disposition will be minimal and there will be no revisions to the earnings and distribution forecasts for the 44th fiscal period announced in “Financial Results for the 42nd Fiscal Period” dated April 19, 2023.

3. Reason for the Disposition

OJR has been promoting the selective disposition of properties with concerns over future competitiveness or relatively low profitability and thus has been implementing an asset reshuffling strategy focused on enhancing portfolio quality to achieve stable growth of unitholder value. Under this policy and management strategies, we decided to dispose the Property for the following reasons and backgrounds.

- After the acquisition of the Property, the hotel performance has been sluggish due to a greater-than-expected opening of competitors and decrease in the number of hotel guests in Himeji city including the impact from the COVID-19. Although we have been working with the hotel management company (ORIX Group), which are the tenants of the Property, and the hotel operator (Okura Nikko Hotel Management Co., Ltd.) to refurbish and improve the performance of the Property, the income after depreciation per period is in the red. (Fiscal Period as of Feb. 2023: -15 million yen. Reference: 31million yen in Fiscal Period as of Feb. 2017)
- Wedding and banquet sales, which account for a certain percentage of total sales, are unlikely to recover as people's lifestyle changes due to the COVID-19 pandemic and other factors.
- Drastic improvement of profitability is expected to be challenging even if additional investments are made together with the current hotel management company and the hotel operator.
- As for re-tenancy, demand for opening new full-service hotels is currently limited, and even if re-tenancy is realized, rent levels are expected to decline and additional investment is expected, hence it is not realistic to achieve the better conditions than the current ones.
- We also have faced a significant decline in appraisal value and the risk of impairment due to rule of impairment accounting (the ratio of unrealized gains / losses as of the end of the most recent fiscal period ended February 28, 2023 was - 39%). If the impairment loss is materialized, this loss would not be considered as deductible expenses for tax purposes. As a result, cash outflow would occur due to the payment of corporate tax, etc., and the investor would not be able to utilize the benefits of the conduit requirements for real estate investment corporations in which corporate tax, etc. is not imposed under tax law which need to meet certain requirements. In such a situation, the investor's value would be significantly damaged.
- Under these circumstances, in order to improve the quality of our portfolio and avoid the risk of impairment loss, we conducted activities to sell the Property. Although we contacted around 100 companies, the highest offer price (= Disposition price) among several companies, that expressed their intention to purchase the Property, was significantly lower than the book value of the Property and the appraisal value as of the end of the most recent fiscal period (appraisal date: February 28, 2023; appraiser: Japan Real Estate Institute) (“JREI”). Therefore, as a reference for considering the appropriateness of the Disposition price, we have obtained an appraisal report from Tanizawa Sogo Appraisal Co., Ltd. (“Tanizawa”) with the date of valuation as of July 31, 2023, and has confirmed that the Disposition price will exceed the appraisal value. As stated in "1. Disposition Summary," there is a discrepancy between the appraisal value by Tanizawa and the appraisal value as of the end of the most recent fiscal period. This discrepancy is mainly due to the difference between the estimated rent and cost in the appraisal report. With regard to rent, the future recovery in hotel performance that serves as the basis for the calculation of rent, there is a gap between the assumptions of revenue from the accommodation division, the banquet division, and labor costs. As a result, the variable rent from operating revenue was 161 million yen for Tanizawa compared to 242 million yen

for JREI (variance 80 million yen), and the repair cost from operating expenses was 28 million yen for Tanizawa compared to 18 million yen for JREI (variance 9 million yen). The net income used as the basis of appraisal was 99 million yen for Tanizawa compared to 192 million yen for JREI (variance 92 million yen). For the summary of each appraisal, please refer to "7. Appraisal Summary" below.

- OAM determined that the Disposition price is appropriate based on the market environment, through the process for the disposition of the Property, the results of the appraisal described above and analysis of the assumptions thereof, as well as taking into consideration the forecasts for the hotel performance and future cash flows based on the current market conditions.
- As described above, OAM determined that it is in line with the investment policy and management strategies of OJR to improve the quality of the portfolio by avoiding the risk of impairment in the future while minimizing the loss on disposition at the timing of the strong real estate market, rather than continuing to hold the Property, which are low probabilities of performance improvement and dividend contribution in the future, and that it is the best way for unitholders' value. The decision on the disposition of the Property was made with the approval of the OJR's Board of Directors following the resolutions of the Risk Management and Compliance Committee and the Investment Committee in accordance with the internal rules of OAM.
- We assume that we will avoid the impact of the loss on disposition associated with the Disposition by utilizing internal reserves for the entire amount of the impact to the distribution.

Furthermore, proceeds from the disposition will be used for various initiatives that contribute to the stable growth in unitholder value, such as future property acquisition and the repayment of loans.

4. Summary of the Property

<table>
<tr><td colspan="2">Property name</td><td colspan="5">Hotel Nikko Himeji</td></tr>
<tr><td colspan="2">Specified asset category</td><td colspan="5">Real estate trust beneficiary interest</td></tr>
<tr><td colspan="2">Type of ownership</td><td colspan="5">Land: Full ownership, Co-ownership of surface right (The co-owning share stands at approx. 35.2%, which is calculated by dividing 35,167,128 by 100,000,000).
Building: Co-owning shares in sectional ownerships:
1. The share in the Hotel wing stands at approx. 53.6%, which is calculated by dividing 53,557,318 by 100,000,000.
2. The share in the Parking lot stands at approx. 35.4%, which is calculated by dividing 35,421,634 by 100,000,000</td></tr>
<tr><td colspan="2">Address</td><td colspan="5">100, Minami Ekimae-cho, Himeji-shi, Hyogo (Note1)</td></tr>
<tr><td colspan="2">Registered usage</td><td colspan="5">Hotel, Parking</td></tr>
<tr><td colspan="2">Appraisal value (Date of value)</td><td colspan="5">3,050 million yen
(Date of value: February 28, 2023, Appraiser: Japan Real Estate Institute)
<Reference>
1,780 million yen
(Date of value: July 31, 2023, Appraiser: Tanizawa Sogo Appraisal Co., Ltd.)</td></tr>
<tr><td colspan="7">Summary of rental status as of June 30, 2023</td></tr>
<tr><td rowspan="5"></td><td>Number of tenants</td><td colspan="5">1</td></tr>
<tr><td>Gross rental income excluding parking</td><td colspan="5">8 million yen per month (Note2)</td></tr>
<tr><td>Security deposits including parking</td><td colspan="5">123 million yen (Note2)</td></tr>
<tr><td>Total rent space</td><td colspan="5">10,684.06 m^2</td></tr>
<tr><td>Total rentable space</td><td colspan="5">10,851.34 m^2</td></tr>
<tr><td colspan="2" rowspan="2">Occupancy rate during past 5 years</td><td>Feb. 2019</td><td>Feb. 2020</td><td>Feb. 2021</td><td>Feb. 2022</td><td>Feb. 2023</td></tr>
<tr><td>99.6%</td><td>100%</td><td>97.7%</td><td>98.5%</td><td>98.5%</td></tr>
<tr><td colspan="2">Special notes</td><td colspan="5">None</td></tr>
</table>

Notes:
1. The "Address" column shows the residence indication if there is, and if there is none, the building address recorded in the registry. Accordingly, the address may differ from the lot number recorded in the registry.
2. Figures are rounded down to the nearest million yen.

5. Profile of the Buyer

The buyer is a Japanese company, however, the consent of the buyer could not be obtained, including the name of the company. There is no capital, personal and business relationship between OJR, OAM and the buyer. In addition, the buyer is not a "related party" to OJR nor OAM.

6. Payment terms

Settlement terms: 100% on delivery

7. Appraisal Summary

Name of asset	Hotel Nikko Himeji

Date of value	February 28, 2023
Appraisal value (In thousands of yen)	3,050,000
Appraiser	Japan Real Estate Institute

(In thousands of yen)

Item		Content	Grounds
Income Approach Value		3,050,000	
Valuation by the Direct Capitalization Method		3,100,000	
(1) Gross Operating Revenue [(a)-(g)]		353,591	
(a) Effective gross revenue [(b) + (c) + (d) + (e) + (f)]		357,604	
(b) Rental income		348,152	Hotel area Rent revenue from the hotel area is calculated based on the lease agreement and the forecasted Gross Operating Profit (GOP) from hotel during stable operating periods, which is estimated based on the actual records, after considering the revenue and expenses of the past year and the competitiveness of the hotel. Retail area Rent revenues and common service fees revenues are calculated based on the lease agreement and the estimated achievable unit rent over the medium to long term.
	Hotel (Fixed rent)	66,000	
	Hotel (Variable rent)	242,169	
	Retail	39,983	
(c) CAM income		6,242	
	Hotel	0	
	Retail	6,242	
(d) Utility reimbursement		0	Utility Expense Income isn't posted as the lessee will directly pay utility expense income.
(e) Parking Fee income		3,150	Parking space income is recorded based on estimation of unit price level for use fees that can be acquired stably over the medium to long term based on the current lease agreement.
(f) Other income		60	Posted antenna set-up income
(g) Vacancy loss		4,013	Vacancy loss is recorded based on occupancy rates of similar properties, supply / demand and specification of the property.
	Hotel Occupancy Rate	100%	
	Retail Occupancy Rate	92%	
(2) Operating Expenses		84,516	
Maintenance Expense		21,325	Estimated based on the management association related expenses incurred in the previous year.
Utility Expense		0	Utility Expenses isn't posted as the tenants pay. Utility Expenses incurred by the management association isn't recorded since they are considered as a part of Maintenance Expenses.
Repair Expense		18,600	Posted comprehensively considering the fee level of similar properties as well as an annual average renewal maintenance fees in the engineering report based on the actual records.
Property Management Fee		3,221	Estimated considering the fee rate based on the property management agreement
Tenant Advertisement Cost		318	Hotel area Cost incurred upon tenant replacement or renewal lease agreement should be considered in Cap Rate. Retail and Parking area Recorded based on terms of lease agreement and lease conditions of similar properties.
Tax and Public Dues		14,872	Estimated based on tax and public charge-related materials
Casualty Insurance		676	Posted comprehensively considering insurance fee as well as the rate of insurance fees of similar buildings
Other Expenses		25,504	Posted land rent fee according to the land lease agreement
(3) Net Operating Income [(1)-(2)]		269,075	
(4)Profit from Managing Security Deposit		926	Assessed by multipling the amount of the deposit according to the leasing agreement by its investment yield.
(5)Capital Expenditure		44,000	Calculated considering the level of capital expenditure and age of similar properties and an annual average renewal costs in the engineering report.
(6)FF&E Reserve		33,982	Calculated considering the level of FF&E Reserve and renewal maintenance plans of similar properties.
(7)Net Revenue [(3)+(4)-(5)-(6)]		192,019	
(8)Cap Rate		6.2%	Cap rate is assessed considering uncertainty in the future and transaction yields of similar properties with adjustment for spread arising from the competitiveness as a hotel such as locational condition and building conditions including age, gross floor area and equipment level of the subject property as well as terms and conditions of contracts, rights of the land and building and other conditions based on the base rate in each area which is set by the appraiser.
DCF Method		3,000,000	
Discount Rate		5.2%	Calculated comprehensively considering specific characteristics of the subject property by referring to investment yields for transactions of similar properties and others.
Terminal Cap Rate		5.8%	Assessed comprehensively considering future trends of investment yields, risks in the subject property as an investment target, general forecasts for economic growth rate and trends in property prices and rents, etc. by referring to transaction yields of similar properties and others.
Cost Approach		3,100,000	
Ratio of Land		80.7%	
Ratio of Building		18.8%	
Ratio of FF&E		0.5%	

Additional considerations made in the reconciliation of evaluation	None

<Reference>

Name of asset	Hotel Nikko Himeji

Date of value	July 31, 2023
Appraisal value (In thousands of yen)	1,780,000
Appraiser	Tanizawa Sogo Appraisal Co., Ltd.

(In thousands of yen)

Item		Content	Grounds
Income Approach Value		1,780,000	We estimated the value indicated by the Income Approach mainly based on the value indicated by the DCF Method, also verified it by the value indicated by the DC Method.
Valuation by the Direct Capitalization Method		1,820,000	
(1) Gross Operating Revenue [(a)-(g)]		267,989	
(a) Effective gross revenue [(b) + (c) + (d) + (e) + (f)]		277,508	Assessed Rental income,which are considered to be stable levels, based on the the competitiveness of subject property, the trends of track record, market trends, the lease evidences, and so on.
(b) Rental income		267,989	Assessed the market rent taking into account the trends of track record, and so on.
	Hotel (Fixed rent)	66,000	
	Hotel (Variable rent)	161,258	
	Retail	40,730	
(c) CAM income		6,003	Assessed based on the trends of track record, and so on.
	Hotel	0	
	Retail	6,003	
(d) Utility reimbursement		0	
(e) Parking Fee income		3,456	Assessed based on the trends of track record, and so on.
(f) Other income		60	Antenna Fee income.
(g) Vacancy loss		9,519	Assessed based on the vacancy rate deemed to be a stable level, taking into account the competitiveness of subject property, the trends of track record, market trends, and so on.
	Hotel Occupancy Rate	100%	
	Retail Occupancy Rate	80%	
(2) Operating Expenses		97,117	
Maintenance Expense		23,833	Assessed based on the Union management fee, and so on.
Utility Expense		0	
Repair Expense		28,320	Assessed based on Engineering Report, the level of similar properties, and so on.
Property Management Fee		2,963	Assessed based on the Sub Property Management contract, and so on.
Tenant Advertisement Cost		339	Assessed based on the turnover rate deemed to be a stable level, taking into account the competitiveness of subject property, the trends of track record , market trends, and so on.
Tax and Public Dues		14,196	Assessed based on the tax breakdown for fixed asset tax and city planning tax in 2023, and so on.
Casualty Insurance		621	Assessed based on the actual amount, and so on.
Other Expenses		26,843	Other Expenses include the land rent. Assessed based on the trends of track record, the level of similar properties, and so on.
(3) Net Operating Income [(1)-(2)]		170,870	
(4)Profit from Managing Security Deposit		1,301	Assessed investment yield as 1.0%.
(5)Capital Expenditure		63,720	Assessed based on Engineering Report, the level of similar properties, and so on.
(6)FF&E Expenditure		8,566	Assessed based on the level of similar properties, and so on.
(7)Net Revenue [(3)+(4)-(5)-(6)]		99,886	
(8)Cap Rate		5.5%	Assessed by taking into account the use of the subject property, its location and building conditions, market trends, the comparable evidences, the type of lease, the relations of rights , and so on.
DCF Method		1,760,000	
Discount Rate		5.6%	Assessed by taking into account the use of the subject property its location and building conditions, the level of funding costs, market trends, the type of lease, the relations of rights, and so on.
Terminal Cap Rate		5.7%	Assessed by taking into account future uncertainty and other factors in the capitalization rate at the date of value.
Cost Approach		1,850,000	
Ratio of Land		67.4%	
Ratio of Building		32.3%	
Ratio of FF&E		0.3%	

Additional considerations made in the reconciliation of evaluation	The market participants make decisions focusing on the stability of income, growth potential, liquidity at the resale, and other factors. The value indicated by the Income Approach reflected this process is highly normative. Accordingly, we determined the final opinion of value by the value indicated by the Income Approach.

【Reference】

OJR's earnings and distributions forecast for the 43rd fiscal period and the 42nd performance results announced on April 19, 2023

	Operating revenues (million yen)	Operating income (million yen)	Ordinary income (million yen)	Net income (million yen)	Distributions per unit excluding distribution in excess of earnings (yen)	Distributions per unit in excess of earnings (yen)
Forecast FP43 (Aug. 2023)	25,257	11,619	10,504	10,487	3,740	-
Actual result FP42 (Feb. 2023)	25,671	12,218	11,161	11,149	4,068	-

Note: This is the English translation of original Japanese documents and is provided solely for information purposes. If there are any discrepancies between the translation and the Japanese original, the latter shall prevail.