

Supplemental Material on a Press Release

“ORIX JREIT Announces Disposition of a Property ‘Hotel Nikko Himeji’” as of August 25, 2023

August 25, 2023

REIT Issuer:

ORIX JREIT (TSE: 8954)

Asset Management Company:

ORIX Asset Management Corporation

Purpose of the Disposition

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- ▶ Improve portfolio quality through disposing “Hotel Nikko Himeji”
- ▶ Assume to utilize internal reserves for losses on disposition for stable distribution

Overview of the Disposition



Property name	Hotel Nikko Himeji	Contract date of the Disposition	August 25, 2023
Asset Type	Hotels and Others	Disposition date	August 31, 2023 (Buyer: Not - disclosed)
Address	100 Minami Ekimae-cho, Himeji-shi, Hyogo	Disposition price	1,832 million yen
Acquisition date	September 30, 2016	Appraisal value	3,050 million yen (Date of value: Feb. 28, 2023, Japan Real Estate Institute) <Reference> 1,780 million yen (Date of value: July 31, 2023, Tanizawa Sogo Appraisal Co., Ltd.)
Acquisition price	4,800 million yen	Book value	5,062 million yen
NOI yield (Feb. 2023)	1.3%	Estimated gain/loss on disposition	-3,258 million yen
Yield after depreciation (Feb. 2023)	-0.6%		

Reason of the Disposition

Changes in management environment

- The hotel performance has been sluggish due to a greater-than-expected decrease in the number of hotel guests in Himeji and the opening of competing hotels.
- Accommodation income has been recovered to exceeding pre-COVID19, but it's still far from OJR's original expectation.
- Wedding and banquet sales are unlikely to recover as people's lifestyle changes due to the COVID-19 pandemic.

Avoidance of impairment risk

- We have faced a significant decline in appraisal value and the risk of impairment.
- If an impairment loss is materialized, this loss would not be considered as deductible expense for tax purposes. Therefore, investors will not be able to utilize the tax benefits which could be negative impact to unitholders' value.

Improvement of portfolio quality

- There are low probability of performance improvement and dividend contribution in the future, therefore we aim to improve portfolio quality through disposition.

Backdrop of the Disposition

Option 1

Continue to work with current hotel manager and operator

- Although we have been working with the hotel management company and the hotel operator, drastic improvement of profitability is expected to be challenging even if additional investments are made.

Option 2

Continue to own with re-tenancy

- Demand for opening new full-service hotels is currently limited.
- Even if re-tenancy is realized, rent levels are expected to decline and additional investment is expected, therefore to achieve better conditions are not realistic.

Option 3

Disposition

- The impairment risk will be materialized over the future because of low probability of performance improvement
- The loss on disposition can be minimized through the Disposition at a timing of strong the real estate market.

- ⇒ After considering each option, we decided that “Disposition” is the best way to improve the portfolio quality and ensure the unitholder value
- ⇒ We assume to utilize internal reserves to control downside risk to maintain DPU forecast.

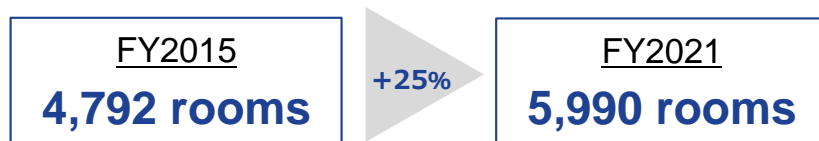
Note: Book value is an estimate as of the disposition date. Estimated gain or loss on disposition is pro forma amount based on the book value and assumed disposition expenses. The amounts are subject to change.

Hotel Market in Himeji

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- ▶ Hotel performance was sluggish due to greater-than-expected openings of competing hotels and decreased hotel guests in Himeji
- ▶ Wedding and banquet sales are unlikely to recover as people's lifestyle changes

■ Number of guest rooms in hotels/inns in Himeji



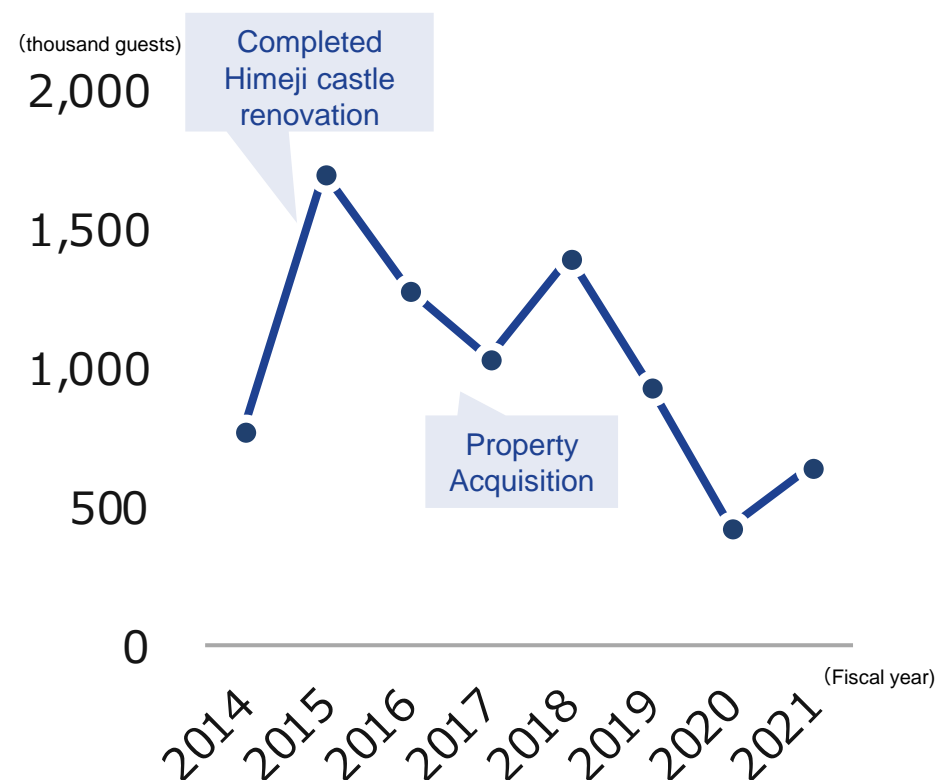
(Source) Ministry of Health, Labour and Welfare

■ Recently opened hotels in Himeji

Open	Hotel name	Rooms
Feb. 2018	Hotel LiVEMAX Himeji-Shiyakushomae	79
Mar. 2018	HOTEL MONTEREY HIMEJI	274
Jun. 2018	Richmond Hotel Himeji	216
Oct. 2018	Daiwa Roynet Hotel HIMEJI	218
Jan. 2019	Hotel LiVEMAX PREMIUM Himejiek-Minami	193
Mar. 2020	Toyoko Inn Himeji-eki Shinkansen Kita-guchi	389
Nov. 2022	JR Clement Inn Himeji (Re-branded)	211
Total		1,580

(Source) Prepared by asset management company based on the survey by Japan Hotel Appraisal Co., Ltd.

■ Hotel guests in Himeji



(Source) Prepared by asset management company based on the survey by Hyogo pref.

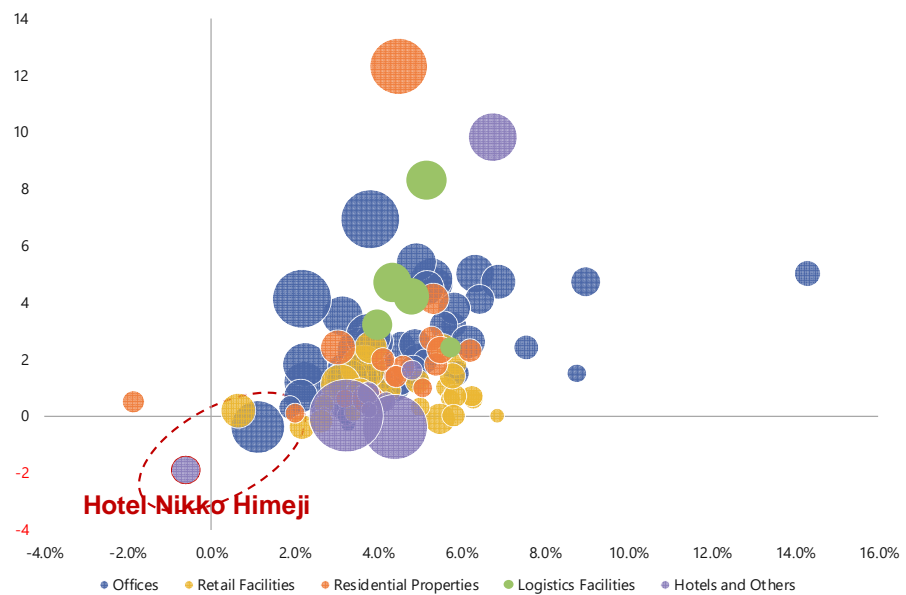
Improving Portfolio Quality through Consistent Asset Reshuffling

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- ▶ Continue to improve portfolio quality through asset reshuffling
- ▶ In the current environment where the real estate transaction market is strong, there is room for realization of unrealized gains through property sales and expansion of internal reserves

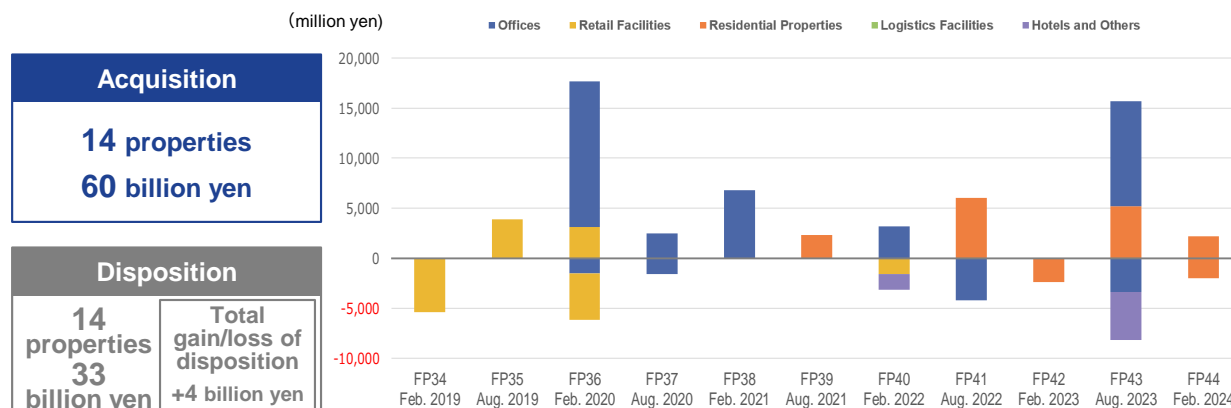
OJR's Portfolio

(Unrealized gain/loss: billion yen)



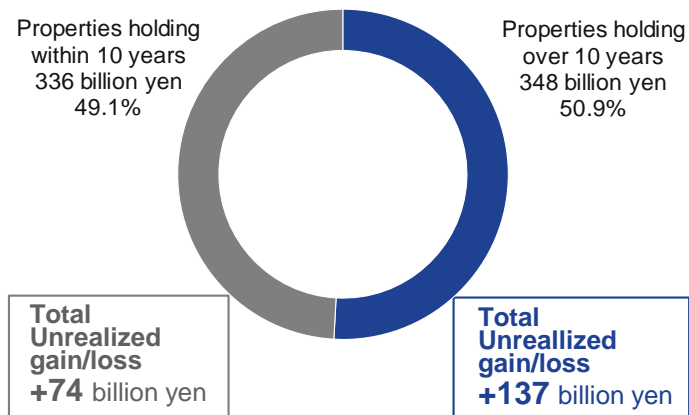
Note: Figures are for properties owned as of the date of the latest announcement of financial announcement on April 19, 2023. The size of the circle represents the acquisition price.

Asset Reshuffling since 2019



Note: The above chart indicates the acquisition price of properties owned and the total acquisition price of disposed properties as of each fiscal period. The disposition gain/loss from the properties to be disposed in total gain/loss of disposition is pro forma amount based on the estimated book value etc. as of the date of disposition, and it is subject to change.

Portfolio by Holding Period (As of July 31, 2023)



Properties holding over 10 years

Asset type	Acquisition price (billion yen)	Unrealized gain/loss (billion yen)
Offices	222	80
Retail Facilities	50	9
Residential Properties	30	18
Logistics Facilities	30	19
Hotels and Others	15	9

Note: It indicates the holding period as of the end of July 2023 for properties owned as of the latest financial announcement on Apr.19, 2023. "Unrealized gain/loss" is calculated by the difference between "Appraisal Value" and "Book Value" as of the end of the latest fiscal period and rounded down to the nearest whole number. "Acquisition price" is rounded down to the nearest whole number. Therefore, the total amount of acquisition price and unrealized gain/loss for each asset type does not match "total acquisition price" and "total unrealized gains / losses" of properties held for more than 10 years.

ORIX JREIT Inc.

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**Asset Management Company :
ORIX Asset Management Corporation**