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Notice Concerning Acquisition of Asset (Equity Interest in Silent Partnership)

This is to inform you that Japan Hotel REIT Advisors Co., Ltd., the asset management company of Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) has resolved to acquire the following asset (hereinafter called the “New Asset”) today.

1. Summary of New Asset

Name of new asset	Equity interest in silent partnership (tokumei kumiai) which invests in real estate trust beneficiary interest (hereinafter called the “Property”).
Category of new asset	Equity interest in silent partnership with G.K. Tourism Japan No. 1
Real estate in trust	Hotel Francs
Investment amount	JPY595M
Date of conclusion of contract	October 30, 2014
Date of acquisition	October 31, 2014
Acquisition financing	Cash on hand

2. Rationale for Acquisition

We, JHR, have decided to invest in the New Asset because by acquiring the equity interest in silent partnership, JHR would be able to receive allocation of rental income, etc. from the lessee of the real estate trust beneficiary interest through the business operator of the partnership, and the preferential negotiation rights that are associated with the New Asset will create an opportunity to acquire the property. For detail, please see “4. Summary of New Asset (Plan).”

Hotel Francs, the property held under the real estate trust beneficiary interest, has the characters as explained in the following (1)-(3). We believe that by acquiring the Property in the future, we can improve the quality of the portfolio.

(1) Improvement in stability

Stable fixed rent is expected due to a 10-year fixed-term lease.

(2) Improvement in profitability

The Property's NOI yield exceeds weighted average of NOI yield for JHR's current portfolio. Improvement in the profitability is expected.

(3) Diversification in areas

The Property is located in the suburbs of Tokyo, one of strategic investment areas, and where JHR has no properties in.

Furthermore, JHR would like to turn the acquisition of the New Asset into expansion of the opportunity to acquire the property in the future for the following reasons.

(1) Sale and leaseback

K.K. Live Love Laugh, the seller of the Property, is an affiliated company of K.K. Bridal Produce, one of Japan's leading wedding planning companies, which currently operates Hotel Francs. K.K. Bridal Produce is scheduled to continue its operation of the Property by leasing the Property after the business operator acquires the Property. In general, an operator who needs to off-balance its assets prefers to sell its property to a buyer that understands the operation and can hold the property in mid- to long-term period. This corresponds with JHR's characters and JHR will continue to aim property acquisitions similar to this scheme.

(2) Strengthening sourcing

JHR is in collaboration with RISA Partners, Inc. (hereinafter called "RISA") and Topaz Capital, Inc. (hereinafter called "Topaz") for the formation of the silent partnership. RISA has a strong network with regional financial institutions throughout Japan and RISA is affiliated with over 170 financial institutions. RISA proactively develops operations to support regional growth and revitalization. It also has information on tourism and hotel markets rooted in regions. JHR is confident that strengthening cooperation with RISA, starting with this formation of silent partnership, would contribute to the expansion of property acquisition opportunities. Topaz, on the other hand, is an asset manager of private debt funds. It provides various funding with funds raised from domestic institutional investors and business companies. JHR, therefore, expects to obtain information through formation of similar acquisition cases as well as funding from Topaz, which leads to flexible acquisition of properties.

### 3. Characteristics of the Property

The Property is located at a 3-minute walk from JR Kaihin-Makuhari Station and about a 5-minute drive from Wangan Narashino Interchange Exit of Higashi-Kanto Expressway. This area, Makuhari New City Center, has the concept of future-oriented cosmopolitan city, and offices, commercial facilities, hotels, etc. are concentrated in this area. The number of visitors to the city is increasing due to an attraction of major companies and opening of Makuhari Messe convention facility and Mitsui Outlet Park Makuhari. The city plays an important role in accommodating such visitors and business people. The city also has a high accessibility, with limousine bus services to and from both Haneda and Narita airports. Moreover, since JR Maihama Station where Tokyo Disney Resort is located is also only 17 minutes by train, Hotel Francs can expect both inbound and leisure demand.

The Property is also strong in wedding banquets and has a competitiveness which far exceeds the average market in Makuhari area. Since the Property maintains competitiveness in its facility through periodic renovations and high product quality, it has built a strong brand identity as a wedding hotel not only in Makuhari area but also in Chiba Prefecture.

#### 4. Summary of New Asset (Plan)

##### (1) Summary of Silent Partnership Agreement

Name of business operator (eigyosha)	G.K. Tourism Japan No. 1	
Valid period of silent partnership agreement	October 31, 2016	
Total amount of silent partnership equity interest	JPY1,195M	
Summary of silent partnership agreement	The summary of the silent partnership is as follows.	
	G.K. Tourism Japan No. 1	
	Real estate trust beneficiary interest, etc. (*1)  JPY3,325M	Nonrecourse loan JPY2,130M
		Equity investment in silent partnership (*2) JPY1,195M
	Calculation period: The calculation period is every three months, from January 1 through the end of March, from April 1 through the end of June, from July 1 through the end of September, and October 1 through the end of December of each year. However, the first calculation period will be from the date of the investment of partnership interest to the end of December 2014.	
Distribution of profits and losses: If profits arise from the silent partnership operation in each calculation period, silent partners receive profits in accordance with the ratio of the investment as at the end of each calculation period. (*3)  If losses arise from the silent partnership operation in each calculation period, silent partners are allocated losses in accordance with the ratio of the investment as at the end of each calculation period. However, if the accumulated amount of the distributed losses exceeds the total investment of the silent partners, all the exceeded amount of losses will be distributed to the business operator.		
Summary of preferential rights granted to JHR		
Description of preferential rights	JHR is scheduled to receive the “Letter of Intent to Sell” from the business operator. The Letter of Intent to Sell stipulates that JHR has the preferential rights to acquire the Property which business operator plans to acquire on October 31, 2014.  The business operator is prohibited to sell (including negotiations, consultations, etc.) the Property to the third party other than JHR until the exercise period of preferential rights is expired.  JHR has no obligation in acquiring the Property.	
Exercise period of preferential rights	To October 31, 2015 (scheduled)	

(\*1) Real estate trust beneficiary rights, etc. include money reserve, costs to formulate silent partnership, etc.

(\*2) The silent partnership investment consists of 1<sup>st</sup> Silent Partner investment (investment amount JPY600M) and 2<sup>nd</sup> Silent Partner investment (investment amount JPY595M). RISA and Topaz will

acquire equity interest in 1<sup>st</sup> Silent Partner investment. JHR will acquire the whole equity interest in 2<sup>nd</sup> Silent Partner investment.

(\*3) The allocation of profits for 1<sup>st</sup> Silent Partners and 2<sup>nd</sup> Silent Partner may differ from the initial investment ratio due to the timing of the sale of the New Asset.

(\*4) MAX-REALTY is scheduled to be the asset management company of G.K. Tourism Japan No. 1.

## (2) Details of the Property

Property No.	-	Property Name	Hotel Francs
1 . Asset summary (*1)			
Asset category		Real estate trust beneficiary interest	
Acquisition date		October 31, 2014	
Appraisal value		JPY3,460,000,000.- (Please see “Reference 1” for detail.)	
2 . Summary of real estate (or real estate trust beneficiary interest) (*2)			
Intended use of the property		Hotel / Full-serviced hotel	
Ownership	Land	Ownership	
	Building	Ownership	
Land	Plot No.	10-2, Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba Prefecture	
	Address	10-2, Hibino 2-chome, Mihama-ku, Chiba-shi, Chiba Prefecture	
	Acreage	4,828.00m <sup>2</sup>	
	Zoning, etc.	Commercial district. Fire-preventive district. District planning area for Makuhari New City Center area.	
	Building-to-land ratio	80%	
	Floor area ratio	400%	
Building	Structures and stories	Steel-reinforced concrete building. Thirteen stories above ground with one story below ground.	
	Intended use	Hotel	
	Completion	August 1991	
	Total floor space	19,213.39m <sup>2</sup>	
	Designer	Kumagai Gumi Co., Ltd. (first-class registered architect office)	
	Constructor	Kumagai Gumi Co., Ltd. (Tokyo branch)	
	Institute that confirmed building	Chiba City	
Present owner		K.K. Live Love Laugh	
3. Transportation (*3)			
Three-minute walk from the Kaihin Makuhari Station on the JR Keiyo Line			
4. Lease status			
Total number of tenants		1 (*4)	
Rentable area		19,213.39 m <sup>2</sup>	
Rented area		19,213.39 m <sup>2</sup>	
Annual contractual rent	Fixed rent	Non-disclosure (*5)	
	Variable rent	—	
Deposit and guarantee money		Non-disclosure (*5)	

Change in occupancy rate for the past five years based on area	January 2010 to December 2010	January 2011 to December 2011	January 2012 to December 2012	January 2013 to December 2013	January 2014 to September 2014
	100.0%	100.0%	100.0%	100.0%	100.0%
5. Related parties for hotel operation (*6)					
Hotel lessee	K.K. Bridal Produce				
Property manager	Jones Lang LaSalle				
6. Hotel website (*7)					
http://www.francs.co.jp/					
7. Summary of the building inspection report					
Investigation company		Tokio Marine & Nichido Risk Consulting Co., Ltd.			
Investigation date		July 15, 2014			
Repair cost	Urgently required	JPY0.-			
	Required within one year	JPY0.-			
	Total amount for another 12 years	JPY615,625,000.-			
Earthquake PML value (*8)		2.5%			
8. Special remark (*9)					
None					

- (\*1) Asset summary  
 • Asset category indicates category of real estate, etc. as specified asset.
- (\*2) Real estate (or real estate trust beneficiary interest) summary  
 • Structure and stories, intended use of the building, and completion of the building are taken from the real property registry. However, if erroneous information is identified by investigation, correct information is stated.  
 • Zoning, etc. (zoning, special zoning, fire preventive district, and semi-fire preventive district) are stated based on Article 8, Clause 1-1, Clause 2, and Clause 5 of City Planning Act.  
 • The current owner of the Property is K.K. Live Love Laugh. As of October 31, 2014, a Real Estate Trust Agreement for Administration and Disposition will be executed between K.K. Live Love Laugh (trustor) and Mitsubishi UFJ Trust and Banking Corporation (trustee).
- (\*3) Transportation  
 It is according to the information on the present hotel operator's website.
- (\*4) Total number of tenants  
 • The number indicates direct tenant that the trustee is the counterpart of the lease agreement.
- (\*5) "Fixed rent" and "Deposit and guarantee money"  
 "Fixed rent" and "Deposit and guarantee money" are not disclosed as hotel lessee does not agree with disclosure.
- (\*6) Related parties for hotel operation  
 • Hotel lessee indicates a lessee whose trustee has scheduled to lease to. Property manager indicates property manager contracted by trustee.
- (\*7) Hotel website  
 • It is a website address of the present hotel lessee.
- (\*8) PML  
 • PML (Probable Maximum Loss) is the anticipated damage ratio resulted from an earthquake. Since no uniform definition has been made yet on PML, we used the following method. Probability and anticipated loss amount caused by the various earthquakes that may occur in another 475 years are evaluated and statistically processed to identify the anticipated percentage of loss amount against the building replacement cost. It has been calculated based on site inspection, assessment of building condition, confirmation of the consistency with the design document, ground investigation, local factors and structural investigation. Indicated PML is the PML on valuation detail (Phase 2) of the investigation company.
- (\*9) Special remarks  
 • In principle, following is stated: (1) Right or restriction based on the right of the third party except for tenant of the building. (2) Important matters stipulated by the management rules, agreement or memoranda concluded with other co-owners of the strata-titled building and shared land. (3) Important restrictions stipulated by the administrative laws to this property.
- (\*10) All numbers less than JPY1,000 is rounded down.

(3) External Appearance and Interior of the Property

External Appearance



Executive Twin Bedroom



Aqua Belle (Banquet Room)



(4) Map around the Property



## 5. Summary of Business Operator of Silent Partnership

Name	G.K. Tourism Japan No. 1
Headquarter	c/o Tokyo Kyodo Accounting Office 1-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo
Representative	Representative partner    general incorporated association TS1 Executor of representative partner    Masakazu Hongo
Capital	JPY2,000.-
Establishment	March 31, 2014
Major business	1. Acquisition, possession, disposition, leasing, and management of real estate 2. Acquisition, possession, and disposition of real estate trust beneficiary interest 3. Incidental or related businesses for above
Relationship between JHR, its asset management company, and business operator	
Capital relationship Human relationship Business relationship	JHR and its asset management company do not have any capital, human, and business relationships that should be statutory reported with the business operator. The related parties of JHR and its asset management company do not have any capital, human, and business relationships that should be specifically reported with the related parties of the business operator.
Related parties	The business operator does not come under the related parties of JHR and its asset management company. Related parties of the business operator do not come under the related parties of JHR and its asset management company.

## 6. Transaction with Interested Parties

Not applicable.

## 7. Settlement Method

JHR is scheduled to make a lump-sum payment to the business operator with cash on hand for the whole investment amount for the silent partnership.

## 8. Schedule of Acquisition

Resolution for the acquisition	October 29, 2014
Conclusion of silent partnership agreement (scheduled)	October 30, 2014
Equity investment in silent partnership (scheduled) Transfer of real estate trust beneficiary interest (scheduled) to the business operator	October 31, 2014

## 9. Future prospect

The impact of the scheduled acquisition is minor and no change is required for the operating forecast for the fiscal year December 2014 (January 1, 2014 through December 31, 2014).



(Reference 1) Appraisal report summary

Hotel Francs

<b>Summary of real estate appraisal report</b>	
Appraiser	Daiwa Real Estate Appraisal Co., Ltd.
Date of appraisal	August 31, 2014
Appraisal value	JPY3,460,000,000.-
Price based on income	JPY3,460,000,000.-
Price by direct capitalization method	JPY3,350,000,000.-
Gross income	JPY300,000,000.-
Rent income	JPY300,000,000.-
Fixed rent	JPY300,000,000.-
Variable rent	JPY0
Other income	JPY0
Total cost	JPY84,261,000.-
Net operating income (NOI)	JPY215,738,000.-
Net cash flow (NCF)	JPY181,142,000.-
Cap rate	5.4%
Price by DCF method	JPY3,510,000,000.-
Discount rate	5.2%
Terminal cap rate	5.6%
Price based on the integrated value	JPY3,870,000,000.-
Land price	JPY2,206,835,000.-
Building price	JPY1,660,915,000.-



(Reference 2) The portfolio list after acquisition of the new asset

No.	Hotel	Type	Grade	No. of guest rooms (*1)	Area (*2)	Completion	Acquisition price (plan) (JPY1M)(*3)	Investment ratio (*4)
1	Kobe Meriken Park Oriental Hotel	Full-service	Upper-middle	319	Kansai	July 1995	10,900	6.3%
2	Oriental Hotel tokyo bay	Full-service	Mid-price	503	Kanto (excluding Tokyo)	May 1995	19,900	11.5%
3	Namba Oriental Hotel	Limited-service	Mid-price	257	Kansai	March 1996	15,000	8.6%
4	Hotel Nikko Alivila	Resort	Luxury	396	Okinawa	April 1994	18,900	10.9%
5	Oriental Hotel Hiroshima	Full-service	Upper-middle	227	Other	September 1993 (Extended in September 2006)	4,100	2.4%
6	ibis Tokyo Shinjuku	Limited-service	Mid-price	206	Tokyo	September 1980	7,243	4.2%
8	The Beach Tower Okinawa	Resort	Mid-price	280	Okinawa	March 2004 (Extended in June 2005 and May 2006)	7,610	4.4%
9	Hakone Setsugetsuka	Resort	Mid-price	158	Kanto (excluding Tokyo)	October 2006	4,070	2.3%
10	Dormy Inn Kumamoto	Limited-service	Mid-price	294	Other	January 2008	2,334	1.3%
12	Dormy Inn Suidobashi	Limited-service	Economy	99	Tokyo	August 1986 (Extended in September 1989)	1,120	0.6%
13	Dormy Inn EXPRESS Asakusa	Limited-service	Economy	77	Tokyo	March 1997	999	0.6%
14	Hakata Nakasu Washington Plaza	Limited-service	Mid-price	247	Other	March 1995	2,130	1.2%
15	Nara Washington Hotel Plaza	Limited-service	Mid-price	204	Kansai	March 2000	2,050	1.2%
16	R&B Hotel Ueno-Hirokoji	Limited-service	Economy	187	Tokyo	April 2002	1,720	1.0%
17	R&B Hotel Higashi-Nihombashi	Limited-service	Economy	203	Tokyo	March 1998	1,534	0.9%
18	Comfort Hotel Tokyo Higashi-Nihombashi	Limited-service	Economy	259	Tokyo	January 2008	3,746	2.2%
19	Comfort Hotel Shin Yamaguchi	Limited-service	Economy	139	Other	August 2007	866	0.5%
21	Daiwa Roynet Hotel Akita	Limited-service	Economy	221	Other	June 2006	1,760	1.0%
22	Smile Hotel Nihombashi-Mitsukoshimae	Limited-service	Economy	164	Tokyo	March 1997	2,108	1.2%
23	Hotel Sunroute Niigata	Limited-service	Mid-price	231	Other	August 1992	2,105	1.2%
24	Toyoko Inn Hakataguchi Ekimae	Limited-service	Economy	257	Other	September 2001	1,652	1.0%
25	Hotel Vista Kamata Tokyo	Limited-service	Economy	106	Tokyo	January 1992	1,512	0.9%
26	Chisan Inn Kamata	Limited-service	Economy	70	Tokyo	April 2003	823	0.5%
29	Hotel Keihan Universal City	Resort	Mid-price	330	Kansai	June 2001	6,000	3.5%
30	Hotel Sunroute Shimbashi	Limited-service	Mid-price	220	Tokyo	March 2008	4,800	2.8%
31	Hilton Tokyo Bay Hotel	Resort	Luxury	818	Kanto (excluding Tokyo)	June 1988	26,050	15.0%
32	ibis Styles Kyoto Station	Limited-service	Mid-price	215	Kansai	March 2009	6,600	3.8%
33	Best Western Hotel Sapporo Nakajima Koen	Limited-service	Mid-price	278	Hokkaido	July 2010	6,797	3.9%
34	Mercure Hotel Sapporo	Limited-service	Mid-price	285	Hokkaido	April 2009	6,000	3.5%
35	Mercure Hotel Okinawa Naha	Limited-service	Mid-price	260	Okinawa	August 2009	3,000	1.7%
	Total	—	—	7,510	—	—	173,429	100.0%

(\*1) No. of rooms available to sell as of today (rooms occupied by hotel itself for a long term is excluded).

(\*2) Tokyo is Tokyo Metropolitan area. Kanto (excluding Tokyo) represents Kanagawa, Chiba, Saitama, Ibaragi, Gunma, Tochigi and Yamanashi prefectures. Kansai represents Kyoto, Osaka, Shiga, Hyogo, Nara and Wakayama prefectures. Okinawa represents Okinawa prefecture.

(\*3) The purchase prices stated on the Purchase and Sales Agreement for the Trust Beneficiary Interest or Real Estate Purchase and Sale Agreement are indicated (Consumption tax, local consumption tax and the acquisition expense such as broker's fee are not included). The acceptance prices are indicated for the assets that have been accepted through the merger.

(\*4) The percentage of each purchase price to the total purchase price is indicated and the numbers are rounded off to one decimal place.

(\*5) Numbers for the disposed assets (No. 7, No. 11, No. 20, No. 27, and No. 28) are missing numbers.

(\*6) In addition to the abovementioned properties, JHR is scheduled to invest on a silent partnership with G.K. Tourism Japan No. 1 as a business operator on October 31, 2014.