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February 20, 2019

Financial Report for the Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)

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.
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Scheduled date to file Securities Report: March 20, 2019
Scheduled date to start dividend payment: March 20, 2019

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, 2018 (January 1, 2018 – December 31, 2018)

(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, 2018	28,253	10.9	17,993	14.2	16,211	15.7	16,210	15.7
December 31, 2017	25,475	15.2	15,757	13.5	14,006	14.6	14,005	15.5

	Net income per unit	Return on equity (ROE)	Ordinary income to total assets	Ordinary income to operating revenue
Fiscal year ended	JPY	%	%	%
December 31, 2018	4,041	8.0	4.6	57.4
December 31, 2017	3,606	7.3	4.2	55.0

(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, 2018	3,890	15,602	0	0	96.2	7.7
December 31, 2017	3,683	14,771	0	0	105.5	7.5

(Note 1) The source of dividends for the fiscal year ended December 31, 2018 is calculated by deducting ¥1,174 million of the reserve for special advanced depreciation from the amount obtained by adding appropriation for dividends (¥563 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 4> Dividend per unit and appropriation for dividends” on page 22.

(Note 2) The source of dividends for the fiscal year ended December 31, 2017 is calculated by adding appropriation for dividends (¥769 million) to unappropriated retained earnings. For details of the appropriation for dividends, please refer to “<Reference Information 4> Dividend per unit and appropriation for dividends” on page 22.

(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, 2018	350,556	203,372	58.0	50,705
December 31, 2017	352,183	201,963	57.3	50,354

(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, 2018	30,938	(3,110)	(18,563)	37,184
December 31, 2017	17,763	(36,083)	19,866	27,920

2. Operating forecast for the fiscal year ending December 31, 2019 (January 1, 2019 – December 31, 2019)

(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	12,765	3.6	7,186	(1.8)	6,155	(3.6)	6,154	(3.6)	-	-
Full year	28,876	2.2	17,371	(3.5)	15,274	(5.8)	15,273	(5.8)	3,686	0

(Reference) Estimated net income per unit for the fiscal year ending December 31, 2019 (full year) ¥3,445

(Calculated based on the estimate of period-average number of investment units of 4,432,717.)

(Note) Reserve for temporary difference adjustment in the amount of ¥1,177 million is planned to be the source of 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 (hereinafter referred to as “JHR”))

As of December 31, 2018	4,010,847 units
As of December 31, 2017	4,010,847 units
 - (b) Number of JHR’s own investment units held at the end of the fiscal year

As of December 31, 2018	0 units
As of December 31, 2017	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 42.

*** Status of audit procedures**

At the time of disclosure of this financial report, audit procedures for the financial statements pursuant to the Financial Instruments and Exchange Act of Japan are incomplete.

*** Appropriate use of forecasts of results and other 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 “2. Investment policies and operating results; (2) Operating results; (B) Outlook for the next fiscal period” on page 6 and “Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2019 (20th period)” on page 13.

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1. Related parties of the investment corporation

Disclosure is omitted because there is no significant change from “Structure of the investment corporation” in the most recent Securities Report (submitted on March 20, 2018) and Securities Registration Statement (submitted on January 8, 2019).

2. Investment policies and operating results

(1) Investment policies

Disclosure is omitted because there is no significant change from “Investment policies,” “Investment targets” and “Distribution policy” in the most recent Securities Report (submitted on March 20, 2018), Midterm Securities Report (submitted on September 20, 2018) and the Securities Registration Statement (submitted on January 8, 2019).

(2) 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 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, JHR has carried out eight 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 24 properties amounting to ¥210,022 million (on an acquisition price basis) in total in approximately a little less than seven years since the Merger. Moreover, in the fiscal year under review, JHR sold 3 properties (R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu) (hereinafter referred to as the “Sale”) as part of its growth strategy to improve the quality of its portfolio through asset replacement. As a result, JHR had a portfolio of 41 properties with a combined acquisition price of ¥309,370 million and the total number of investment units issued and outstanding stood at 4,010,847 units at the end of the fiscal year under review (December 31, 2018).

(b) Investment performance for the fiscal year under review

Although 2018 was a year when natural disasters hit Japan more often and harder than a typical year, such as Typhoon Jebi that made Kansai International Airport dysfunctional and the Hokkaido Eastern Iburi Earthquake, the accommodation market remained solid as the cumulative number of overnight guests at domestic accommodation facilities totaled 510 million guest nights (preliminary release), a slight increase over 2017 when the figure reached record high. Moreover, the number of foreign visitors to Japan (hereinafter referred to as “inbound visitors”) in 2018 amounted to 31.19 million (by preliminary release, up 8.7% from the previous year), as the government showed strong commitment to making Japan a tourism nation. As such, the number of inbound visitors has continued to increase strongly

The hotel investment market continued to be in a brisk state with continual attention paid to Japan’s tourism industry and hotel industry. With the investment market for certain hotels felt overheated, JHR carried out the Sale by comprehensively taking into account the relevant properties’ positions in the portfolio, their competitiveness over the medium to long term and prospects for upside gains and stability, among other factors.

The performance of the hotels owned by JHR showed some signs of impact of the above-mentioned natural disasters to a certain degree. However, GOP (gross operating profit) of the Major 21 hotels with variable rent contracts (Note) increased over the previous year. In particular, the rooms department worked to generate greater earnings by implementing active asset management, which is proactive pursuit for improvement of profitability and asset value of owned hotels. For further details of sales, GOP and other management indicators for the Major 21 hotels with variable rent contracts, please refer to “<Reference Information 3> Hotel operation indexes, sales and GOP” on page 21.

In addition to measures to increase fixed and variable rent, etc. through the active asset management strategy, JHR has endeavored to increase dividend by reducing the costs of each item such as real estate operating costs, general and administrative expenses and borrowing costs through negotiations with relevant parties and other measures.

(Note) The hotel group combining the hotels which JHR leases to Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”) (Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila 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), Hotel Centraza Hakata, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, and Hotel Nikko Nara) is called the Existing HMJ Group. The Major 21 hotels with variable rent contracts refers to the Existing HMJ Group excluding Hotel Centraza Hakata 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.

(c) Funding conditions

In February 2018, JHR issued investment corporation bonds of ¥10,000 million for individual investors mainly to allocate the fund to early repayment of existing loans. In addition, JHR borrowed ¥1,700 million in March 2018 to refinance existing loans, and ¥8,350 million in April 2018 for the refinance and partial early repayment of existing loans. Meanwhile, in August 2018, JHR made early repayment of ¥5,000 million in short-term loans it borrowed in April 2018 by using part of the proceeds from the sale of R&B Hotel Higashi-nihonbashi, the b Akasaka-Mitsuke and the b Ochanomizu. Upon the refinance of ¥4,400 million conducted in September 2018, JHR newly added The Shizuoka Bank, Ltd. to its lending banks to further diversify lenders. Moreover, in November 2018, JHR took out loans of ¥700 million, the first part of the loans in multiple installments totaling ¥3,100 million mainly for the purpose of renovating Hotel Centraza Hakata (Note 1).

Consequently, as of the end of the fiscal year under review, balance of interest-bearing debt totaled ¥136,671 million, including, long-term loans payable of ¥103,071 million and investment corporation bonds of ¥33,600 million, and the ratio of interest-bearing debt to total assets at end of year (Note 2) stood at 39.0%.

JHR reduced borrowing costs and extended maturity dates through the aforementioned series of fund procurement. Along with such, JHR concluded loans with fixed interest rates as well as interest rate swap contracts to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio on total interest-bearing debt at end of year to around 97%.

As of December 31, 2018, JHR’s issuer ratings were as follows.

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

(Note 1) Major renovation works causing the suspension of hotel operation (hereinafter called the “Renovation”) have been implemented at Hotel Centraza Hakata from October 1, 2018 to March 31, 2019 (scheduled).

(Note 2) 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

(d) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were ¥28,253 million, ¥17,993 million and ¥16,211 million, respectively, for the fiscal year under review (12-month period from January 1, 2018 to December 31, 2018). Net income was ¥16,210 million. Furthermore, of the gain on sale of real estate properties, JHR decided to internally reserve ¥1,174 million as reserve for reduction entry.

With regard to dividends, it was decided that ¥15,602 million will be distributed, which was calculated by deducting the above-mentioned reserve for reduction entry of ¥1,174 million and adding a reversal of reserve for temporary difference adjustment (appropriation for dividends) of ¥563 million to unappropriated retained earnings of ¥16,213 million. Consequently, the dividend per unit came to ¥3,890.

For details of the appropriation for dividends for the fiscal year under review, please refer to “<Reference Information 4> Dividend per unit and appropriation for dividends” on page 22.

(B) Outlook for the next fiscal period

(a) Investment policies and issues to be addressed

As for the environment surrounding the tourism industry, JHR considers it to be favorable with continued anticipation for expansion of national tourism policies, such as the budget of the Japan Tourism Agency for the fiscal year 2019 increasing by 2.7 times year-on-year to ¥66.5 billion (except reconstruction budget). Moreover, with the number of inbound tourists continuing to increase strongly and domestic leisure demand remaining solid, such major events as Rugby World Cup 2019 and Tokyo 2020 Olympic and Paralympic Games that will strongly demonstrate the attractiveness of “Japan” to the world are expected to provide a further boost to the tourism industry. On the other hand, however, close attention should be paid to the changes in supply-demand balance going forward, including an increase in supply from new development of hotels following trends of increase in inbound visitors, and the impact on private house lodging business by the private house lodging business law (new *minpaku* law) that was enforced in June 2018. Although the hotel market remains generally solid, the supply-demand balance appears to be loosening in certain areas and for certain asset classes, while high-grade hotels in limited supply over demand are anticipated to continue growing strongly. As such, JHR believes that the location and competitiveness of individual hotels and the capabilities of the operators are essential for differentiating the hotels from others. JHR considers that in addition to aforementioned differentiation, whether profitability including cost management can be enhanced will make a further difference in hotel performance. Under such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate JHR in the market by utilizing experience which JHR has cultivated as 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, 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 focus on setting, maintaining and increasing appropriate rents based on the rent levels in the market where respective hotels are located or each tenant’s ability to bear the rent costs, and plans to aim at raising rents (including introduction of revenue sharing structure) in accordance with the accommodation market condition.

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

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 solid domestic leisure demand and increased leisure demand from 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. Moreover, JHR conducts strategic capital investment such as renovating guest rooms, etc. for improving property competitiveness primarily for hotels with high growth expectations, in an attempt to further enhance hotel earnings led by the growth in RevPAR.

ii) Properties under fixed rent contracts

JHR will increase its efforts to appropriately monitor operating conditions of these hotels and, by paying careful attention to each tenant's ability to bear the rent costs, conduct negotiations with the hotels at which the ability to bear rent costs has been enhanced through better performances so that the improvement in hotel earnings would lead to an increase in JHR's earnings, such as revising rents upward and introducing revenue sharing structure.

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 will keep target to acquire 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 JHR 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 gains.

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 (Note). Moreover, JHR will take a particularly selective approach to hotels specialized for accommodation and of 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, harsh competition over acquisitions is ongoing due in part to an increase in J-REITs that invests in hotels and formation of non-listed private J-REITs. JHR will aim for expansion of asset size that accompanies an improvement in the quality of its portfolio by acquiring highly competitive properties while leveraging its strength and advantages and also utilizing the HMJ platform in some cases.

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 maintain and enhance the relationships of trust with existing financial institutions with which it does business 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 funding 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, including issuance of investment corporation bonds, while considering the balance with the borrowing costs.

Moreover, while JHR understands that no abrupt change is likely to occur to the interest rate level in the current situation, it aims to further improve its financial foundation by managing risk of interest rates market through extending maturity dates and fixing rates, etc., in preparation for addressing any change in the financial market environment.

Policy on handling of negative goodwill

Starting 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” and the “Regulation for Real Estate Investment Trusts and Real Estate Investment Corporations” of The Investment Trusts Association, Japan. For the fiscal year under review and thereafter, 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 2017, to pay out as dividends, with the balance of the reserve for temporary difference adjustment remaining at the time of reversal set as the maximum reversal amount (Note).

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).

As for the fiscal year ending December 31, 2019 (20th period), JHR expects ¥1,177 million, which is the total of the 50-year amortization amount (¥262 million), correspondence to dilution, etc. (¥310 million), loss on retirement of noncurrent assets (¥247 million) and the correspondence to the large-scale renovation at Hotel Centraza Hakata (¥357 million) as additional amounts to dividends by reversing the negative goodwill.

(Note) 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.

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 Hotel Nikko Alivila and Mercure Okinawa Naha in February 2018 as first such cases for J-REIT’s hotel properties (Note 1). Moreover, in September 2018, JHR became the first J-REIT specializing in hotels (Note 1) that was recognized by GRESB for its environmental awareness and sustainability initiatives, acquiring “Green Star,” the highest ranking, in the GRESB Real Estate Assessment (Note 2) and “4 Stars” in the GRESB Rating.

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 program to evaluate Environment, Social and Governance (ESG) awareness 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

1. Acquisition of assets

JHR acquired Hotel Oriental Express Osaka Shinsaibashi as of February 1, 2019.

Property name	Hotel Oriental Express Osaka Shinsaibashi
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	3-2-13, Minamimemba, Chuo-ku, Osaka-shi, Osaka
Acquisition date	February 1, 2019
Seller	Undisclosed (Note 1)
Acquisition price (Note 2)	¥2,738 million

(Note 1) The information is not disclosed as consent on disclosure has not been obtained from the seller.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption taxes.

2. Conclusion of contract on acquisition of asset

On January 8, 2019, JHR concluded a purchase and sale agreement (Note 1) regarding acquisition of the following asset.

Property name	Hilton Tokyo Odaiba
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address	1-9-1, Daiba, Minato-ku, Tokyo
Anticipated acquisition date	April 8, 2019
Seller	Hulic Co., Ltd.
Acquisition price (Note 2)	¥62,400 million

(Note 1) The purchase and sale agreement is subject to forward commitment, etc., stipulated in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. by Financial Services Agency. Forward commitment, etc. here is defined as “a postdated real estate transaction contract where there is an agreement to either make a financial settlement or complete transfer of asset after a period of one month or more following the conclusion of the contract, or any other similar contracts. The purchase and sale agreement stipulates that either party may cancel the purchase and sale agreement if the other party violates the obligations stipulated in the purchase and sale agreement and that the violating party shall pay a certain amount of trading value to the other party. However, the purchase and sale agreement contains a special condition which stipulates that completion of debt financing stated in “3. Resolution on borrowing funds” below or other fundraising by JHR is a condition precedent to the payment of the transaction amount. Accordingly, in the event that debt financing or fundraising by JHR for the payment of the transaction amount is not completed, the purchase and sale agreement will be terminated without payment of cancellation penalty.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, and consumption tax and local consumption tax.

3. Resolution on borrowing of funds

JHR resolved on January 8, 2019 to conduct new borrowings totaling ¥30,000 million as follows, in order to partly fund the acquisition of the real estate beneficial interest in trust of Hilton Tokyo Odaiba and movable assets attached thereon as described above in 2. Conclusion of contract on acquisition of asset.

(1) Term Loan 53

Lenders	The Bank of Fukuoka, Ltd. / The Chiba Bank, Ltd. / The Nishi-Nippon City Bank, Ltd. / Sompo Japan Nipponkoa Insurance Inc.
Amount of the loan	¥2,500 million
Interest rate	To be determined (fixed rate)
Date of borrowing	April 8, 2019
Method of borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 29, 2024
Collateral	Unsecured / Unguaranteed

(2) Term Loan 54

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank, Ltd. / Development Bank of Japan Inc.
Amount of the loan	¥7,500 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.55%
Date of borrowing	April 8, 2019
Method of borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2027
Collateral	Unsecured / Unguaranteed

(3) Term Loan 55

Lenders	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Ltd. / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank Limited / Resona Bank, Ltd. / The Nomura Trust and Banking Co., Ltd. / Development Bank of Japan Inc. / The Bank of Fukuoka, Ltd. / Aozora Bank, Ltd. / The Nishi-Nippon City Bank, Ltd.
Amount of the loan	¥18,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.60%
Date of borrowing	April 8, 2019
Method of borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2028
Collateral	Unsecured / Unguaranteed

(4) Term Loan 56

Lender	Sumitomo Mitsui Banking Corporation
Amount of the loan	¥2,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.275%
Date of borrowing	April 8, 2019
Method of borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2020
Collateral	Unsecured / Unguaranteed

4. Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 8, 2019 and January 16, 2019. Payment for the new investment units was completed on January 23, 2019 and February 20, 2019, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital increased to ¥186,894,169,809, with the number of investment units issued and outstanding totaling 4,462,347 units.

(1) Issuance of new investment units (domestic public offering and overseas offering)

Number of investment units issued:	447,800 units
Of which, domestic public offering:	206,247 units
Of which, overseas offering:	241,553 units
Issue price:	¥76,342 per unit
Total issue price:	¥34,185,947,600
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥33,104,510,600
Payment date:	January 23, 2019

(2) Issuance of new investment units (third-party allotment)

Number of investment units issued:	3,700 units
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥273,529,900
Payment date:	February 20, 2019
Allottee:	SMBC Nikko Securities Inc.

(3) Use of funds

JHR will allocate the proceeds from the issuance of new investment units through the domestic public offering and overseas offering of ¥33,104,510,600 to part of the funds for acquisition of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba as described above in "1. Acquisition of assets" and "2. Conclusion of contract on acquisition of asset." In addition, the proceeds from the issuance of new investment units through third-party allotment of ¥273,529,900 will be allocated to part of the funds for acquisition of Hilton Tokyo Odaiba. The residual funds of the proceeds, if any, will be retained as cash on hand to be allocated to part of the funds for future acquisition of specified assets, part of the funds for repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(c) Operating forecast

The following is JHR's operating forecast for the midterm of the fiscal year ending December 31, 2019 (20th period) and the full year of the fiscal year ending December 31, 2019 (20th period). For the assumptions of the operating forecast, please refer to "Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2019 (20th period)" on page 13.

Midterm of the fiscal year ending December 31, 2019 (20th period)

Operating revenue	¥12,765 million
Operating income	¥7,186 million
Ordinary income	¥6,155 million
Midterm net income	¥6,154 million

Full year of the fiscal year ending December 31, 2019 (20th period)

Operating revenue	¥28,876 million
Operating income	¥17,371 million
Ordinary income	¥15,274 million
Net income	¥15,273 million
Dividend per unit	¥3,686
Dividend per unit resulting from excess of earnings	¥0

(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 and full year of the fiscal year ending December 31, 2019 (20th period)

Item	Assumptions																																																																																																																																						
Calculation period	<ul style="list-style-type: none">Midterm (20th Period) : January 1, 2019 through June 30, 2019 (181 days)Full year (20th Period) : January 1, 2019 through December 31, 2019 (365 days)																																																																																																																																						
Assets under management	<ul style="list-style-type: none">The 41 properties owned by JHR as of December 31, 2018, plus the following Assets for (Anticipated) Acquisition, to total 43 properties are assumed. <div><Assets for (Anticipated) Acquisition><table><tr><th>(Anticipated) acquisition date</th><th>Name of asset</th></tr><tr><td>February 1, 2019</td><td>Hotel Oriental Express Osaka Shinsaibashi</td></tr><tr><td>April 8, 2019</td><td>Hilton Tokyo Odaiba</td></tr></table></div> <ul style="list-style-type: none">It is assumed that there will be no change (acquisition of new property or disposition of the existing properties, etc.) in assets under management other than the above through the end of the fiscal year ending December 2019 (20th period). However, the actual results may fluctuate depending on the changes in assets under management that may take place.	(Anticipated) acquisition date	Name of asset	February 1, 2019	Hotel Oriental Express Osaka Shinsaibashi	April 8, 2019	Hilton Tokyo Odaiba																																																																																																																																
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Operating revenue	<ul style="list-style-type: none">Operating revenue is calculated based on leases and other contracts effective as of today and in consideration of competitiveness of hotels, market environment and other factors. If there are lease contracts with regards to facilities other than hotels, such as retail facilities and offices, etc., operating revenue calculated based on the said lease contracts is included.Rents, etc. of the main hotels are calculated based on the following assumptions. <div>(1) The Existing HMJ Group</div> <div>The assumptions of the fixed rent and variable rent are as follows.</div> <div>Total rent = Fixed rent + Variable rent</div> <div>Variable rent = [Total GOP of the hotels – GOP base amount] × Variable rent ratio (%)</div> <div>(Unit: millions of yen)</div> <table><tr><th></th><th></th><th>Fixed rent</th><th>Total GOP of the hotel(s)</th><th>GOP base amount</th><th>Variable rent ratio</th><th>Variable rent</th><th>Total rent</th></tr><tr><td rowspan="2">The Five HMJ Hotels</td><td>Midterm</td><td>1,610</td><td>3,240</td><td>1,675</td><td rowspan="2">85.0%</td><td>1,330</td><td>2,940</td></tr><tr><td>Full year</td><td>3,221</td><td>8,133</td><td>3,351</td><td>4,065</td><td>7,286</td></tr><tr><td rowspan="2">Okinawa Marriott Resort & Spa</td><td>Midterm</td><td>274</td><td>403</td><td>350</td><td rowspan="2">90.0%</td><td>47</td><td>322</td></tr><tr><td>Full year</td><td>550</td><td>1,400</td><td>700</td><td>630</td><td>1,180</td></tr><tr><td rowspan="2">ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (*1)</td><td>Midterm</td><td>398</td><td>488</td><td>234</td><td rowspan="2">82.5%</td><td>215</td><td>614</td></tr><tr><td>Full year</td><td>797</td><td>1,046</td><td>468</td><td>488</td><td>1,285</td></tr><tr><td rowspan="2">Hotel Centraza Hakata</td><td>Midterm</td><td>199</td><td>67</td><td>212</td><td rowspan="2">90.0%</td><td>- (*2)</td><td>199</td></tr><tr><td>Full year</td><td>400</td><td>677</td><td>425</td><td>226</td><td>626</td></tr><tr><td rowspan="2">Holiday Inn Osaka Namba</td><td>Midterm</td><td>288</td><td>593</td><td>325</td><td rowspan="2">92.5%</td><td>248</td><td>536</td></tr><tr><td>Full year</td><td>576</td><td>1,242</td><td>650</td><td>547</td><td>1,123</td></tr><tr><td rowspan="2">Hilton Tokyo Narita Airport</td><td>Midterm</td><td>222</td><td>462</td><td>275</td><td rowspan="2">86.5%</td><td>162</td><td>384</td></tr><tr><td>Full year</td><td>444</td><td>993</td><td>550</td><td>383</td><td>827</td></tr><tr><td rowspan="2">International Garden Hotel Narita</td><td>Midterm</td><td>168</td><td>323</td><td>180</td><td rowspan="2">98.0%</td><td>140</td><td>308</td></tr><tr><td>Full year</td><td>336</td><td>650</td><td>360</td><td>285</td><td>621</td></tr><tr><td rowspan="2">Hotel Nikko Nara</td><td>Midterm</td><td>210</td><td>353</td><td>235</td><td rowspan="2">91.5%</td><td>108</td><td>318</td></tr><tr><td>Full year</td><td>420</td><td>735</td><td>470</td><td>242</td><td>662</td></tr><tr><td rowspan="2">Total</td><td>Midterm</td><td>3,372</td><td>5,932</td><td>-</td><td rowspan="2">-</td><td>2,253</td><td>5,625</td></tr><tr><td>Full year</td><td>6,744</td><td>14,878</td><td>-</td><td>6,869</td><td>13,613</td></tr></table> <div>(*1) As to “Total GOP of the hotel(s)” and “GOP base amount,” the rent for Sheraton Grand Hiroshima Hotel, the major facility of ACTIVE-INTER CITY HIROSHIMA, is stated. “Fixed rent” includes rent from the office building and the retail zone (¥224 million for the midterm and ¥449 million for the full year); and</div>			Fixed rent	Total GOP of the hotel(s)	GOP base amount	Variable rent ratio	Variable rent	Total rent	The Five HMJ Hotels	Midterm	1,610	3,240	1,675	85.0%	1,330	2,940	Full year	3,221	8,133	3,351	4,065	7,286	Okinawa Marriott Resort & Spa	Midterm	274	403	350	90.0%	47	322	Full year	550	1,400	700	630	1,180	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (*1)	Midterm	398	488	234	82.5%	215	614	Full year	797	1,046	468	488	1,285	Hotel Centraza Hakata	Midterm	199	67	212	90.0%	- (*2)	199	Full year	400	677	425	226	626	Holiday Inn Osaka Namba	Midterm	288	593	325	92.5%	248	536	Full year	576	1,242	650	547	1,123	Hilton Tokyo Narita Airport	Midterm	222	462	275	86.5%	162	384	Full year	444	993	550	383	827	International Garden Hotel Narita	Midterm	168	323	180	98.0%	140	308	Full year	336	650	360	285	621	Hotel Nikko Nara	Midterm	210	353	235	91.5%	108	318	Full year	420	735	470	242	662	Total	Midterm	3,372	5,932	-	-	2,253	5,625	Full year	6,744	14,878	-	6,869	13,613
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	<p>“Variable rent” includes variable rent pursuant to a revenue linked rent agreement with some retail tenants (¥5 million for the midterm and ¥10 million for the full year).</p> <p>(*2) Due to the impact of the suspension of hotel operation due to the Renovation scheduled in the first half of the fiscal year ending December 2019 (20th period), GOP of the hotel for the first half is not expected to exceed GOP base amount. Therefore, it is assumed that variable rent for the midterm will not be recognized.</p> <p>(2) The Two New HMJ Hotels (Assets for (Anticipated) Acquisition)</p> <p>1. Hotel Oriental Express Osaka Shinsaibashi</p> <p>The assumptions of the fixed rent and variable rent are as follows.</p> <p>Total rent = Fixed rent + Variable rent</p> <p>Variable rent = [Total GOP of the hotels – GOP base amount] × Variable rent ratio (%)</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th></th><th>Fixed rent</th><th>Total GOP of the hotel(s)</th><th>GOP base amount</th><th>Variable rent ratio</th><th>Variable rent</th><th>Total rent</th></tr><tr><td rowspan="2">Hotel Oriental Express Osaka Shinsaibashi (*)</td><td>Midterm</td><td>47</td><td>-</td><td>-</td><td rowspan="2">91.0%</td><td>-</td><td>47</td></tr><tr><td>Full year</td><td>102</td><td>101</td><td>64</td><td>34</td><td>137</td></tr></table> <p>(*) Variable rent which is linked to GOP of the hotel will be recognized starting from July 1, 2019. As for the total GOP of the hotel for the full year, the GOP of the hotel from July 1, 2019 through December 31, 2019 is stated. The fixed rent is the assumed figures for 334 days from February 1, 2019 to December 31, 2019. Base GOP amount will be ¥128 million and annual fixed rent will be ¥110 million starting from the fiscal year ending December 2020.</p> <p>2. Hilton Tokyo Odaiba</p> <p>The assumptions of the fixed rent and variable rent are as follows. Variable rent for the fiscal year ending December 2019 (20th period) is not expected.</p> <p>Total rent = Fixed rent + Variable rent</p> <p>Variable rent = [Total AGOP of the hotels (*1) – AGOP base amount] × Variable rent ratio (%)</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th></th><th>Fixed Rent (*2)</th><th>Total AGOP of the hotel(s)(*2)</th><th>AGOP base amount</th><th>Variable rent ratio</th><th>Variable rent</th><th>Total rent</th></tr><tr><td rowspan="2">Hilton Tokyo Odaiba</td><td>Midterm</td><td>714</td><td>725</td><td>817</td><td rowspan="2">30.0%</td><td>-</td><td>714</td></tr><tr><td>Full year</td><td>2,264</td><td>2,370</td><td>2,450</td><td>-</td><td>2,264</td></tr></table> <p>(*1) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.</p> <p>(*2) AGOP of the hotel for full year is the AGOP of the hotel from April through December 2019. The fixed rent is the assumed figures for 268 days from April 8, 2019 through December 31, 2019. AGOP base amount from January 1, 2020 to December 31, 2021 is ¥2,970 million, and the annual fixed rent is ¥3,100 million. AGOP base amount from January 1, 2022 to December 31, 2029 is ¥1,660 million, variable rent ratio is 98%, and the annual fixed rent is ¥1,600 million.</p> <p>(3) Other hotels with variable rent</p> <p>1. The following are income from management contracts (*2) and variable rent for the Accor Group (*1).</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th>Midterm</th><th>Full year</th></tr><tr><td>ibis Tokyo Shinjuku</td><td>227</td><td>496</td></tr><tr><td>ibis Styles Kyoto Station</td><td>244</td><td>525</td></tr><tr><td>ibis Styles Sapporo</td><td>263</td><td>643</td></tr><tr><td>Mercure Sapporo</td><td>283</td><td>693</td></tr><tr><td>Mercure Okinawa Naha</td><td>230</td><td>478</td></tr><tr><td>Mercure Yokosuka</td><td>168</td><td>278</td></tr><tr><td>Total</td><td>1,418</td><td>3,115</td></tr></table> <p>(*1) The Accor Group refers to a hotel group for which AAPC Japan K.K. (hereinafter referred to as “Accor”), a Japanese subsidiary of Accor Hotels, serves as the operator.</p> <p>(*2) For income from management contracts, it is assumed that each hotel’s GOP amount is recognized as</p>									Fixed rent	Total GOP of the hotel(s)	GOP base amount	Variable rent ratio	Variable rent	Total rent	Hotel Oriental Express Osaka Shinsaibashi (*)	Midterm	47	-	-	91.0%	-	47	Full year	102	101	64	34	137			Fixed Rent (*2)	Total AGOP of the hotel(s)(*2)	AGOP base amount	Variable rent ratio	Variable rent	Total rent	Hilton Tokyo Odaiba	Midterm	714	725	817	30.0%	-	714	Full year	2,264	2,370	2,450	-	2,264		Midterm	Full year	ibis Tokyo Shinjuku	227	496	ibis Styles Kyoto Station	244	525	ibis Styles Sapporo	263	643	Mercure Sapporo	283	693	Mercure Okinawa Naha	230	478	Mercure Yokosuka	168	278	Total	1,418	3,115
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	<p>income from management contracts and the management contract fees to be paid by JHR are recognized as an operating expense.</p> <p>2. The following are variable rent for the Ishin Group (*).</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th>Midterm</th><th>Full year</th></tr><tr><td>the b suidobashi</td><td>10</td><td>25</td></tr><tr><td>the b ikebukuro</td><td>63</td><td>137</td></tr><tr><td>the b hachioji</td><td>33</td><td>69</td></tr><tr><td>the b hakata</td><td>76</td><td>164</td></tr><tr><td>Total</td><td>184</td><td>397</td></tr></table> <p>(*) The Ishin Group refers to a hotel group which has subsidiaries of the Ishin Hotels Group as lessees.</p> <p>3. The following are variable rent for other hotels subject to variable rent</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th>Midterm</th><th>Full year</th></tr><tr><td>Comfort Hotel Tokyo Higashi Nihombashi</td><td>17</td><td>17</td></tr><tr><td>Smile Hotel Nihombashi Mitsukoshimae</td><td>19</td><td>19</td></tr><tr><td>Hotel Vista Kamata Tokyo</td><td>—</td><td>22</td></tr><tr><td>Chisun Inn Kamata</td><td>38</td><td>82</td></tr><tr><td>Hotel Keihan Universal City</td><td>Undisclosed (*)</td><td>Undisclosed (*)</td></tr><tr><td>Hotel Sunroute Shinbashi</td><td>115</td><td>115</td></tr><tr><td>Hilton Tokyo Bay</td><td>Undisclosed (*)</td><td>Undisclosed (*)</td></tr><tr><td>Hilton Nagoya</td><td>Undisclosed (*)</td><td>Undisclosed (*)</td></tr><tr><td>Total</td><td>859</td><td>1,469</td></tr></table> <p>(*) Undisclosed since tenants that concluded lease agreements did not agree to disclose rent revenue, etc.</p> <p>• The following is the breakdown of variable rent and income from management contracts (*).</p> <p style="text-align: right;">(Unit: millions of yen)</p> <table><tr><th></th><th>Midterm</th><th>Full year</th></tr><tr><td>The Existing HMJ Group</td><td>2,253</td><td>6,869</td></tr><tr><td>The Two New HMJ Hotels</td><td>—</td><td>34</td></tr><tr><td>Accor Group</td><td>1,418</td><td>3,115</td></tr><tr><td>Ishin Group</td><td>184</td><td>397</td></tr><tr><td>Other hotels with variable rent (8 hotels)</td><td>859</td><td>1,469</td></tr><tr><td>Total (32 hotels)</td><td>4,715</td><td>11,886</td></tr></table> <p>(*) For details of variable rent and income from management contracts except for the Assets for (Anticipated) Acquisition, please refer to “5. Reference information (2) 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” on page 58.</p>		Midterm	Full year	the b suidobashi	10	25	the b ikebukuro	63	137	the b hachioji	33	69	the b hakata	76	164	Total	184	397		Midterm	Full year	Comfort Hotel Tokyo Higashi Nihombashi	17	17	Smile Hotel Nihombashi Mitsukoshimae	19	19	Hotel Vista Kamata Tokyo	—	22	Chisun Inn Kamata	38	82	Hotel Keihan Universal City	Undisclosed (*)	Undisclosed (*)	Hotel Sunroute Shinbashi	115	115	Hilton Tokyo Bay	Undisclosed (*)	Undisclosed (*)	Hilton Nagoya	Undisclosed (*)	Undisclosed (*)	Total	859	1,469		Midterm	Full year	The Existing HMJ Group	2,253	6,869	The Two New HMJ Hotels	—	34	Accor Group	1,418	3,115	Ishin Group	184	397	Other hotels with variable rent (8 hotels)	859	1,469	Total (32 hotels)	4,715	11,886
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Other hotels with variable rent (8 hotels)	859	1,469																																																																				
Total (32 hotels)	4,715	11,886																																																																				
Operating Expenses	<ul style="list-style-type: none">• 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 ¥1,648 million will be recognized as expenses for fixed asset tax, city planning tax and other taxes and public dues.• 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. For expected amount of fixed asset tax and city planning tax and other taxes and public for the Assets for (Anticipated) Acquisition, please refer to <Reference Information 2> Assumptions of the annualized effect (full year effect) for the fiscal year ended December 31, 2018 (19th period) and for the forecast for the fiscal year ending December 2019 (20th period) on page 20.• Capital expenditure is assumed to be ¥6,778 million (¥2,369 million for capital expenditure I, ¥853 million for capital expenditure II, ¥454 million for capital expenditure III, and ¥3,100 million for expenditure related to the Renovation at Hotel Centraza Hakata) for the fiscal year ending December 2019 (20th period). <p>(*) JHR classifies capital expenditures into the following three categories. (I) Capital investment related to renewal of buildings, facilities, and equipment which is required to maintain proper values of properties, (II) capital investment for fixtures and furniture that are not directly related to building structure or facilities</p>																																																																					

Item	Assumptions																		
	<p>but necessary for operating hotels, and (III) strategic capital investment such as renovating guest rooms, etc. for maintaining / improving the competitiveness of the hotels.</p> <ul style="list-style-type: none"> • Depreciation is calculated using the straight-line method including the planned capital expenditures above, and is assumed to be ¥4,663 million. • Repair expenses for buildings are recognized as expenses in the estimated 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"> • ¥2,096 million is expected for all non-operating expenses, including cost related to debt such as interest expense, arrangement fee, amortization for the following (1) handling fees and (2) derivative instruments 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 2018 was ¥136,671 million. It is assumed that the balance of interest-bearing debt after acquiring the Assets for (Anticipated) Acquisition as of the end of April 2019 will be ¥168,471 million, and will be ¥169,071 million as of the end of December 2019. • Loans for acquisition of the Assets for (Anticipated) Acquisition in the amount of ¥30,000 million are assumed. • It is assumed that JHR will take out new loans in the amount of ¥1,800 million and ¥600 million, respectively, for the Renovation cost of Hotel Centraza Hakata on April 30, 2019 and July 31, 2019. 																		
Issuance of investment units	<ul style="list-style-type: none"> • The number of investment units issued as of today (4,462,347 units) is assumed. • It is assumed that there will be no additional issuance of investment units through to the end of the fiscal year ending December 2019 (20th period). 																		
Dividend per unit	<ul style="list-style-type: none"> • Dividend per unit for the fiscal year ending December 2019 (20th period) is calculated based on the following assumptions. <table> <tr> <td>Net income</td><td>¥15,273 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>¥247 million</td></tr> <tr> <td>Correspondence to major renovation works (*3)</td><td>¥357 million</td></tr> <tr> <td>Adjustment for dilution (*4)</td><td>¥310 million</td></tr> <tr> <td>Distributable amount</td><td>¥16,450 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>¥3,686</td></tr> </table> <p>(*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.</p> <p>(*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.</p> <p>(*3) Taking into consideration the effect on dividend of the suspension of hotel operation due to the Renovation at Hotel Centraza Hakata, ¥357 million, which is equivalent to the difference between NOI after depreciation of Hotel Centraza Hakata from January to March 2018 and assumed NOI after depreciation from January to March 2019, will be appropriated by reserve for temporary difference adjustment (negative goodwill). In case the period of the major renovation work is changed, the amount to be reversed from reserve for temporary difference adjustment may be reviewed.</p> <p>(*4) Decrease in dividend per unit because JHR will not own the Asset for (Anticipated) Acquisition for the full fiscal year ending December 2019, as well as dilution of investment units due to the issuance of new investment units are expected. We plan to avoid the impact of the said dilution on dividend per unit for the fiscal year ending December 2019 by appropriating reserve for temporary difference adjustment (negative goodwill).</p>	Net income	¥15,273 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)	¥247 million	Correspondence to major renovation works (*3)	¥357 million	Adjustment for dilution (*4)	¥310 million	Distributable amount	¥16,450 million	Total number of investment units issued	4,462,347 units	Dividend per unit	¥3,686
Net income	¥15,273 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)	¥247 million																		
Correspondence to major renovation works (*3)	¥357 million																		
Adjustment for dilution (*4)	¥310 million																		
Distributable amount	¥16,450 million																		
Total number of investment units issued	4,462,347 units																		
Dividend per unit	¥3,686																		

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 surrounding tenants, etc. of hotels, unexpected repairs, and actual number of new 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 2019 (20th period) is expected to be ¥10,616 million.																														
Assets for (Anticipated) Acquisition	<ul style="list-style-type: none">The operating status for the fiscal year ending December 2019 of the Assets for (Anticipated) Acquisition is assumed as follows. <div><div><Hotel Oriental Express Osaka Shinsaibashi></div><div>(unit: millions of yen)</div><table><tr><td></td><td>Fiscal year ending December 2019</td><td>Full year (*3)</td></tr><tr><td>Operating days</td><td>334 days</td><td>365 days</td></tr><tr><td>Operating revenue</td><td>137</td><td>179</td></tr><tr><td>NOI (*1)</td><td>133</td><td>165</td></tr><tr><td>NOI yield (%) (*2)</td><td>-</td><td>6.0</td></tr></table></div><div><div><Hilton Tokyo Odaiba></div><div>(unit: millions of yen)</div><table><tr><td></td><td>Fiscal year ending December 2019</td><td>Full year (*3)</td></tr><tr><td>Operating days</td><td>268 days</td><td>365 days</td></tr><tr><td>Operating revenue</td><td>2,264</td><td>3,100</td></tr><tr><td>NOI (*1)</td><td>2,260</td><td>2,772</td></tr><tr><td>NOI yield (%) (*2)</td><td>-</td><td>4.4</td></tr></table></div><div>(*1) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses (*2) NOI yield = NOI ÷ (Anticipated) acquisition price (*3) For the assumptions of calculating the annualized (full year) figures, please refer to “<Reference Information 2> Assumptions of the annualized effect (full year effect) for the fiscal year ended December 31, 2018 (19th period) and for the forecast for the fiscal year ending December 2019 (20th period)” on page 20.</div>		Fiscal year ending December 2019	Full year (*3)	Operating days	334 days	365 days	Operating revenue	137	179	NOI (*1)	133	165	NOI yield (%) (*2)	-	6.0		Fiscal year ending December 2019	Full year (*3)	Operating days	268 days	365 days	Operating revenue	2,264	3,100	NOI (*1)	2,260	2,772	NOI yield (%) (*2)	-	4.4
	Fiscal year ending December 2019	Full year (*3)																													
Operating days	334 days	365 days																													
Operating revenue	137	179																													
NOI (*1)	133	165																													
NOI yield (%) (*2)	-	6.0																													
	Fiscal year ending December 2019	Full year (*3)																													
Operating days	268 days	365 days																													
Operating revenue	2,264	3,100																													
NOI (*1)	2,260	2,772																													
NOI yield (%) (*2)	-	4.4																													
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.																														
Other	<ul style="list-style-type: none">It is assumed that revision in law, tax system, accounting standard, regulations of the listing, 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

- (1) The following is a comparison and major causes of variance between the actual results for the fiscal year ended December 31, 2018 (19th period) and the forecast for the fiscal year ending December 31, 2019 (20th period)

(Unit: millions of yen)

		2018	2019	Comparison with		Assets to be Acquired in 2019	Three Properties Sold in 2018	Existing Properties (*1)	Causes of Variance
		Actual (A)	Forecast (B)	(B)-(A)	%				
Properties	Number of Properties	41	43	2		2	-	-	
	Acquisition Price	309,370	374,508	65,138	21.1%	65,138	-	-	
Profit and Loss Statement	Operating Revenue	28,253	28,876	622	2.2%	2,402	(2,214)	434	
	Real Estate Operating Revenue	26,318	28,876	2,557	9.7%	2,402	(279)	434	
	Fixed Rent, etc.	14,788	16,989	2,200	14.9%	2,367	(199)	32	
	Composition	56.2%	58.8%						
	Variable Rent	11,529	11,886	356	3.1%	34	(79)	402	The Existing HMJ Group: increase in variable rent by JPY255 MM
	Composition	43.8%	41.2%						The Accor Group: increase in income from management contract, etc. by JPY169MM Decrease in revenue sharing, etc. by JPY22M
	Gain on Sale of Real Estate Properties	1,934	-	(1,934)	-	-	(1,934)	-	
	NOI	22,104	24,498	2,394	10.8%	2,394	(251)	251	
	NOI Yield	7.1%	6.5%	(0.6%)					
	Depreciation	4,091	4,663	571		272	(34)	334	
	Asset Retirement Obligations	2	2	0		-	-	0	
	Loss on Retirement of Noncurrent Assets	35	247	211		-	-	211	
	NOI after Depreciation (**2)	17,974	19,584	1,610	9.0%	2,121	(216)	(294)	
	NOI Yield after Depreciation	5.8%	5.2%	(0.6%)					
Dividends	Operating Income	17,993	17,371	(621)	(3.5%)				
	Ordinary Income	16,211	15,274	(936)	(5.8%)				
	Net Income	16,210	15,273	(936)	(5.8%)				
	Reserve for Temporary Difference Adjustments (negative goodwill)	563	1,177	613	108.9%				Amount to be reversed from reserve for temporary difference adjustments 2018: 50-year amortization amount of negative goodwill: JPY262M Correspondence to loss on retirement of noncurrent assets: JPY35M
	Reserve for Special Advanced Depreciation	(1,174)	-	1,174					Correspondence to major renovation works: JPY265M
	Total Dividends	15,602	16,448	846	5.4%				2019: 50-year amortization amount of negative goodwill: JPY262M
	Number of Units Issued (unit)	4,010,847	4,462,347	451,500	11.3%				Correspondence to loss on retirement of noncurrent assets: JPY247M Correspondence to major renovation works: JPY357M
	Dividend per Unit (JPY)	3,890	3,686	(204)	(5.2%)				Correspondence to dilution: JPY310M

(*1) “The existing properties” above refers to 41 properties owned by JHR as of December 31, 2018.

(*2) NOI after depreciation = Real estate operating revenue – Real estate operating costs. NOI yield after depreciation = NOI after depreciation ÷ (Anticipated) acquisition price

- (2) The following is a comparison and major causes of variance between the actual results of the annualized effect for the fiscal year ended December 31, 2018 (19th period) and for the forecast of the annualized effect for the fiscal year ending December 31, 2019 (20th period)

(Unit: millions of yen)

		2018 (Reference) Actual results of the annualized effect (*1) (A)	2019 forecast of the annualized effect (*1) (B)	Comparison with Previous Period (B)-(A) %		Assets to be Acquired in 2019	Existing Properties (*2)	Causes of Variance
Properties	Number of Properties	41	43	2		2	-	
	Acquisition Price	309,370	374,508	65,138	21.1%	65,138	-	
Profit and Loss Statement	Operating Revenue	26,039	29,753	3,713	14.3%	3,279	434	
	Real Estate Operating Revenue	26,039	29,753	3,713	14.3%	3,279	434	
	Fixed Rent, etc. Composition	14,589 56.0%	17,832 59.9%	3,242	22.2%	3,210	32	
	Variable Rent Composition	11,449 44.0%	11,921 40.1%	471	4.1%	68	402	The Existing HMJ Group: increase in variable rent by JPY255 MM The Accor Group: increase in income from management contract, etc. by JPY169MM Decrease in revenue sharing, etc. by JPY22M
	NOI	21,811	25,042	3,231	14.8%	2,938	293	
	NOI Yield	7.1%	6.7%	(0.4%)				
	Depreciation	4,057	4,750	693		359	334	
	Asset Retirement Obligations	2	2	0		-	0	
	Loss on Retirement of Noncurrent Assets	35	247	211		-	211	
	NOI after Depreciation NOI Yield after Depreciation	17,715 5.7%	20,041 5.4%	2,325 (0.4%)	13.1%	2,578	(252)	
	Operating Income	15,822	17,763	1,940	12.3%			
	Ordinary Income	14,050	15,689	1,638	11.7%			
	Net Income	14,049	15,688	1,638	11.7%			
Dividends	Reserve for Temporary Difference Adjustments (negative goodwill)	563	867	303	53.9%	Amount to be reversed from reserve for temporary difference adjustments 2018: 50-year amortization amount of negative goodwill: JPY262M Correspondence to loss on retirement of noncurrent assets: JPY35M Correspondence to major renovation works: JPY265M		
	Total Dividends	14,611	16,555	1,943	13.3%			
	Number of Units Issued (unit)	4,010,847	4,462,347	451,500	11.3%	2019: 50-year amortization amount of negative goodwill: JPY262M Correspondence to loss on retirement of noncurrent assets: JPY247M Correspondence to major renovation works: JPY357M		
	Dividend per Unit (JPY)	3,643	3,710	67	1.8%			

(*1) For assumptions of the forecast of the annualized effect for fiscal year ending December 2019, please refer to <Reference Information 2> Assumptions of the annualized effect (full year effect) for the fiscal year ended December 31, 2018 (19th period) and for the forecast for the fiscal year ending December 2019 (20th period) below.

(*2) “The existing properties” above refers to 41 properties owned by JHR as of December 31, 2018.

<Reference Information 2> Assumptions of the annualized effect (full year effect) for the fiscal year ended December 31, 2018 (19th period) and for the forecast for the fiscal year ending December 2019 (20th period)

<1> The fiscal year ended December 31, 2018 (19th period)

It is assumed that the three sold properties are not held from the beginning of the year. Moreover, gain on sale of real estate properties and reserve for special advanced depreciation are not assumed.

The fixed asset tax and city planning tax and other taxes for three properties (Hilton Tokyo Narita Airport, International Garden Hotel Narita, and Hotel Nikko Nara) acquired in the fiscal year ended December 2017 (18th period) are assumed to be ¥160 million, which is equivalent to twelve months.

<2> The fiscal year ended December 31, 2018 (20th period)

There is no change in assumptions for operating revenue and operating expenses of the existing properties excluding the Assets for (Anticipated) Acquisition, from the “Assumptions of the operating forecast for the midterm and full year of the fiscal year ending December 31, 2019 (20th period)” on page 13.

The fixed rent and variable rent for Oriental Express Osaka Shinsaibashi for the full year are calculated as follows.

Total rent for the fiscal year ending December 2019 (20th Period) (full year) (¥179 million)

= Fixed rent (¥110 million) + Variable rent

Variable rent = ((1) Total GOP of the hotels – (2) GOP base amount) × 91.0 (%)

(Unit: millions of yen)

	(1) Total GOP of the hotels	(2) GOP base amount	Variable rent ((1)-(2)) × 91.0%
Full year	203	128	68

The fixed rent and variable rent for Hilton Tokyo Odaiba for the full year are calculated as follows.

Total rent for the fiscal year ending December 2019 (20th Period) (full year) (¥3,100 million)

= Fixed rent (¥3,100 million) + Variable rent

Variable rent = ((1) AGOP of the hotels – (2) AGOP base amount) × 30.0 (%)

(Unit: millions of yen)

	(1) AGOP of the hotel	(2) AGOP base amount	Variable rent ((1)-(2)) × 30.0%
Full year	2,951	2,970	- (*)

(*) The variable rent is not expected.

The fixed asset tax and city planning tax and other taxes for the Assets for (Anticipated) Acquisition are assumed to be ¥326 million, which is equivalent to twelve months.

For non-operating expenses, borrowing costs related to asset acquisitions, expenses incurred in the issuance of new investment units and others are assumed on an annualized basis (for twelve months). On the other hand, major one-time financial costs incurred for asset acquisition are not included.

<Reference Information 3> 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 nor have they 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 million yen. Occupancy rate and comparison with the previous period are rounded off to one decimal place. ADR represents average daily rate, which is calculated by dividing revenue for rooms in a given period by the total number of rooms sold during the period. RevPAR represents revenue per available room, which is calculated by dividing revenue for rooms for a given period (excluding service charges) by the total number of rooms available for sale during the period. The same shall apply hereinafter.

<1> Major 21 Hotels with Variable Rent, etc.

	Actual Result for FY12/2018						Forecast for FY12/2019					
	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period
Occupancy Rate	87.3%	0.3pt	87.1%	(1.4pt)	87.2%	(0.6pt)	88.0%	0.7pt	89.9%	2.8pt	89.0%	1.8pt
ADR	13,744	2.2%	15,868	0.7%	14,814	1.3%	14,017	2.0%	16,184	2.0%	15,121	2.1%
RevPAR	11,996	2.5%	13,828	(0.9%)	12,920	0.6%	12,338	2.9%	14,556	5.3%	13,456	4.2%
Sales (JPY 1M)	22,958	0.8%	26,257	(1.2%)	49,215	(0.3%)	23,684	3.2%	27,331	4.1%	51,015	3.7%
GOP (JPY 1M)	7,715	2.6%	10,196	0.3%	17,911	1.3%	7,774	0.8%	10,550	3.5%	18,324	2.3%

(*) Numbers of fiscal year ending December 2017 for Hilton Tokyo Narita Airport, International Garden Hotel Narita and Hotel Nikko Nara which acquired in fiscal year ending December 2017 are for full year calculated by adding numbers prior to acquisition by JHR. The same shall apply hereinafter.

<2> The Eleven HMJ Hotels

The figures are the total amount for 11 hotels from the Existing HMJ Group excluding Hotel Centraza Hakata in order to exclude the impact of the Renovation that resulted in suspension of sales.

	Actual Result for FY12/2018						Forecast for FY12/2019					
	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period
Occupancy Rate	87.3%	△0.1pt	87.7%	(1.3pt)	87.5%	(0.7pt)	88.1%	0.8pt	90.3%	2.6pt	89.2%	1.7pt
ADR	15,246	2.2%	18,035	0.1%	16,656	1.0%	15,486	1.6%	18,303	1.5%	16,923	1.6%
RevPAR	13,306	2.1%	15,816	(1.4%)	14,572	0.2%	13,640	2.5%	16,525	4.5%	15,095	3.6%
Sales (JPY 1M)	18,754	0.2%	21,831	(1.4%)	40,585	(0.7%)	19,331	3.1%	22,575	3.4%	41,906	3.3%
GOP (JPY 1M)	5,809	2.2%	8,141	1.2%	13,950	1.7%	5,865	1.0%	8,337	2.4%	14,202	1.8%

<3> Hotel Oriental Express Osaka Shinsaibashi

	Actual Result for FY12/2018						Forecast for FY12/2019					
	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period
Occupancy Rate	-	-	-	-	-	-	90.0%	-	90.0%	-	90.0%	-
ADR	-	-	-	-	-	-	10,500	-	10,500	-	10,500	-
RevPAR	-	-	-	-	-	-	9,449	-	9,449	-	9,449	-
Sales (JPY 1M)	-	-	-	-	-	-	224	-	226	-	450	-
GOP (JPY 1M)	-	-	-	-	-	-	102	-	102	-	204	-

(*) Hotel Oriental Express Osaka Shinsaibashi started operation on April 2, 2018. Therefore, numbers are not available for prior to 2018.

<4> Hilton Tokyo Odaiba

	Actual Result for FY12/2018						Forecast for FY12/2019					
	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period	First half	Comparison with the previous period	Second half	Comparison with the previous period	Full year	Comparison with the previous period
Occupancy Rate	95.2%	0.9pt	92.9%	(3.0pt)	94.0%	(1.1pt)	95.2%	0.0pt	94.1%	1.2pt	94.7%	0.6pt
ADR	28,831	6.8%	31,396	8.6%	30,108	7.6%	28,831	0.0%	32,001	1.9%	30,420	1.0%
RevPAR	27,451	7.7%	29,154	5.3%	28,309	6.4%	27,451	0.0%	30,115	3.3%	28,794	1.7%
Sales (JPY 1M)	4,591	9.5%	5,008	7.3%	9,599	8.3%	4,591	0.0%	5,081	1.5%	9,672	0.8%
GOP (JPY 1M)	1,374	21.7%	1,723	15.2%	3,097	18.0%	1,374	0.0%	1,720	(0.2%)	3,094	(0.1%)

(*) Numbers are calculated by adding numbers prior to acquisition by JHR. ADR and RevPAR include service fees.

<Reference Information 4> Dividend per unit and appropriation for dividends

Dividend per unit for the fiscal year ended December 31, 2017 and the fiscal year ended December 31, 2018 are calculated based on the following assumptions.

	Fiscal year ended December 31, 2017 (JPY1M)	Fiscal year ended December 31, 2018 (JPY1M)
Unappropriated retained earnings	14,005	16,213
Reserve for special advanced depreciation (*1)	—	(1,174)
Total of reserve for temporary difference adjustment (*2) (negative goodwill) used	769	563
50-year amortization amount of negative goodwill (*2)	262	262
Loss on retirement of noncurrent assets (*3)	132	35
Correspondence to major renovation works (*4)	—	265
Adjustment for dilution (*5)	374	—
Total dividends	14,771	15,602
Total number of investment units issued	4,010,847 units	4,010,847 units
Dividend per unit	¥3,683	¥3,890

(*1) It is assumed that ¥1,174 million of gain on sale by the Sales is planned to be retained as reserve for special advanced depreciation within the limit to maintain conduit status stipulated by Article 67-15 of Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called “the Act on Special Measures Concerning Taxation” The same shall apply hereinafter.) by applying “Special provisions for taxation in the case where a special account is set up accompanied with transfer of specified assets” (Article 65-8 in the Act on Special Measures Concerning Taxation).

(*2) Starting from the fiscal year ending December 31, 2017 (18th period), JHR commenced paying out dividends through reversal of reserve for temporary difference adjustment in connection with partial amendments to 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. Specifically, JHR transferred the remaining balance of dividend reserve (¥13,127 million) attributable to the gain on negative goodwill in the cash dividends statements for the fiscal year ended December 31, 2016 (17th period) to “reserve for temporary difference adjustment,” and reverse ¥262 million (hereinafter called the “50-year amortization amount of negative goodwill”), which is an amount equivalent to 2% (1/50) of the remaining balance of the reserve for temporary difference adjustment, to payout as dividends, with the remaining balance of the reserve for temporary difference adjustment set as the maximum amount, for every year from the fiscal year ended December 31, 2017 (18th period).

(*3) 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.

(*4) Taking into consideration the effect on dividend by the suspension of hotel operation due to the Renovation at Hotel Centraza Hakata, ¥265 million, which is equivalent to the difference between NOI after depreciation of Hotel Centraza Hakata for the fiscal year ended December 2017 (18th period) and forecasted NOI after depreciation for the fiscal year ended December 2018 (19th period), will be appropriated by reserve for temporary difference adjustment (negative goodwill).

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

3. Financial statements

(1) Balance sheets

(thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	16,179,716	25,706,559
Cash and deposits in trust	11,740,634	11,478,156
Operating accounts receivable	2,411,837	2,474,121
Prepaid expenses	573,439	527,491
Income taxes receivable	32	34
Derivative assets	—	2,229
Other current assets	14,205	77,987
Total current assets	30,919,866	40,266,582
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	278,899	398,134
Accumulated depreciation	(119,213)	(150,113)
Machinery and equipment, net	159,686	248,021
Tools, furniture and fixtures	2,438,070	3,121,628
Accumulated depreciation	(1,132,473)	(1,505,450)
Tools, furniture and fixtures, net	1,305,597	1,616,178
Buildings in trust	*1 122,414,147	*1 122,605,307
Accumulated depreciation	(15,153,003)	(18,178,952)
Buildings in trust, net	107,261,144	104,426,355
Structures in trust	2,493,765	2,535,539
Accumulated depreciation	(304,817)	(367,369)
Structures in trust, net	2,188,948	2,168,169
Machinery and equipment in trust	580,867	598,790
Accumulated depreciation	(99,228)	(125,229)
Machinery and equipment in trust, net	481,638	473,561
Tools, furniture and fixtures in trust	137,266	136,526
Accumulated depreciation	(87,308)	(95,925)
Tools, furniture and fixtures in trust, net	49,957	40,601
Land in trust	171,618,110	163,151,369
Construction in progress in trust	1,512	765,363
Net property and equipment	283,066,595	272,889,620
Intangible assets		
Software	200,001	199,563
Leasehold rights in trust	28,648,457	28,532,362
Fixed-term leasehold rights in trust	5,313,494	5,175,217
Other intangible assets	9,116	8,436
Total intangible assets	34,171,069	33,915,580
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	158,323	150,223
Long-term prepaid expenses	3,008,327	2,687,996
Derivative assets	123,334	45,125
Reserve for repairs and maintenance	319,058	292,508
Total investments and other assets	3,621,564	3,188,374
Total noncurrent assets	320,859,228	309,993,574
Deferred assets		
Investment unit issuance costs	272,107	124,220
Investment corporation bond issuance costs	132,059	172,390
Total deferred assets	404,166	296,610
Total assets	352,183,262	350,556,767

(thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Liabilities		
Current liabilities		
Operating accounts payable	909,971	1,941,008
Short-term loans payable	3,000,000	—
Current portion of investment corporation bonds	—	2,000,000
Current portion of long-term loans payable	15,022,750	11,117,000
Accrued expenses	650,568	530,377
Income taxes payable	1,210	1,210
Consumption taxes payable	560,170	496,921
Advances received	900,259	882,052
Dividends payable	16,400	18,275
Deposits received	22,098	7,315
Derivative liabilities	23,471	17,608
Deferred tax liabilities	—	583
Other current liabilities	54,903	9,013
Total current liabilities	21,161,802	17,021,368
Long-term liabilities		
Investment corporation bonds	23,600,000	31,600,000
Long-term loans payable	98,777,000	91,954,000
Tenant leasehold and security deposits	1,041,016	1,041,016
Tenant leasehold and security deposits in trust	4,653,410	4,593,946
Derivative liabilities	504,179	514,339
Deferred tax liabilities	38,954	14,255
Asset retirement obligations	443,577	445,622
Total long-term liabilities	129,058,138	130,163,180
Total liabilities	150,219,940	147,184,548
Net assets		
Unitholders' equity		
Unitholders' capital	153,516,129	153,516,129
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 13,127,153	*2 12,357,644
Total voluntary reserve	13,127,153	12,357,644
Unappropriated retained earnings (undisposed loss)	14,005,489	16,213,482
Total surplus	48,879,041	50,317,525
Total unitholders' equity	202,395,170	203,833,655
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(431,849)	(461,435)
Total valuation and translation adjustments	(431,849)	(461,435)
Total net assets	*3 201,963,321	*3 203,372,219
Total liabilities and net assets	352,183,262	350,556,767

(2) Statements of income

(thousands of yen)

	For the year ended December 31, 2017	For the year ended December 31, 2018
Operating revenue		
Real estate operating revenue	*1 24,318,307	*1 25,140,735
Other real estate operating revenue	*1 1,157,246	*1 1,178,141
Gain on sales of real estate properties		*2 1,934,974
Total operating revenue	25,475,553	28,253,850
Operating expenses		
Real estate operating costs	*1, *3 7,911,653	*1, *3 8,344,364
Asset management fee	1,501,391	1,577,515
Asset custody and Administrative service fee	111,425	110,273
Directors' compensation	14,150	13,400
Other operating expenses	179,110	214,828
Total operating expenses	9,717,731	10,260,381
Operating income	15,757,821	17,993,469
Non-operating income		
Interest income	212	225
Gain on forfeiture of unclaimed dividends	3,624	3,583
Gain on insurance claims	648	4,627
Refunded fixed asset tax	—	10,354
Interest on tax refunds	391	118
Gain on derivative instruments	22,381	12,843
Total non-operating income	27,258	31,752
Non-operating expenses		
Interest expense	904,000	818,631
Interest expense on investment corporation bonds	169,584	246,329
Borrowing costs	522,774	525,031
Amortization of investment corporation bond issuance costs	20,748	27,751
Amortization of investment unit issuance costs	141,962	147,887
Loss on derivative instruments	13,306	39,417
Other	6,414	8,529
Total non-operating expenses	1,778,791	1,813,577
Ordinary income	14,006,288	16,211,644
Income before income taxes	14,006,288	16,211,644
Income taxes – current	1,210	1,210
Total income taxes	1,210	1,210
Net income	14,005,078	16,210,434
Retained earnings brought forward	411	3,048
Unappropriated retained earnings (undisposed loss)	14,005,489	16,213,482

(3) Statements of changes in net assets

For the year ended December 31, 2017

(thousands of yen)

	Unitholders' capital	Unitholders' equity						
		Capital surplus	Surplus					Total unitholders' equity
			Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus	
			Dividend reserve	Reserve for temporary difference adjustment	Total voluntary reserve			
Balance, January 1, 2017	134,829,448	21,746,398	13,867,228	—	13,867,228	12,126,057	47,739,684	182,569,132
Changes of items during the year:								
Issuance of new investment units	18,686,681							18,686,681
Reversal of dividend reserve			(13,867,228)		(13,867,228)	13,867,228	—	—
Reserve for temporary difference adjustment				13,127,153	13,127,153	(13,127,153)	—	—
Dividends paid						(12,865,721)	(12,865,721)	(12,865,721)
Net income						14,005,078	14,005,078	14,005,078
Net changes of items other than unitholders' equity								
Total changes of items during the year	18,686,681	—	(13,867,228)	13,127,153	(740,075)	1,879,431	1,139,356	19,826,037
Balance, December 31, 2017	^{*1} 153,516,129	21,746,398	—	13,127,153	13,127,153	14,005,489	48,879,041	202,395,170

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2017	(580,019)	(580,019)	181,989,112
Changes of items during the year:			
Issuance of new investment units			18,686,681
Reversal of dividend reserve			—
Reserve for temporary difference adjustment			—
Dividends paid			(12,865,721)
Net income			14,005,078
Net changes of items other than unitholders' equity	148,170	148,170	148,170
Total changes of items during the year	148,170	148,170	19,974,208
Balance, December 31, 2017	(431,849)	(431,849)	201,963,321

For the year ended December 31, 2018

		Unitholders' equity					
	Unitholders' capital		Surplus				Total unitholders' equity
		Capital surplus	Voluntary reserve		Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustment	Total voluntary reserve			
Balance, January 1, 2018	153,516,129	21,746,398	13,127,153	13,127,153	14,005,489	48,879,041	202,395,170
Changes of items during the year:							
Reversal of reserve for temporary difference adjustment			(769,508)	(769,508)	769,508	—	—
Dividends paid					(14,771,949)	(14,771,949)	(14,771,949)
Net income					16,210,434	16,210,434	16,210,434
Net changes of items other than unitholders' equity							
Total changes of items during the year	—	—	(769,508)	(769,508)	2,207,993	1,438,484	1,438,484
Balance, December 31, 2018	*1 153,516,129	21,746,398	12,357,644	12,357,644	16,213,482	50,317,525	203,833,655

(thousands of yen)

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2018	(431,849)	(431,849)	201,963,321
Changes of items during the year:			
Reversal of reserve for temporary difference adjustment			—
Dividends paid			(14,771,949)
Net income			16,210,434
Net changes of items other than unitholders' equity	(29,586)	(29,586)	(29,586)
Total changes of items during the year	(29,586)	(29,586)	1,408,897
Balance, December 31, 2018	(461,435)	(461,435)	203,372,219

(4) Statements of cash dividends

Classification	For the year ended December 31, 2017	For the year ended December 31, 2018
I. Unappropriated retained earnings	¥14,005,489,588	¥16,213,482,816
II. Reversal of voluntary reserve		
Reversal of reserve for temporary difference adjustment	*1 ¥769,508,609	*1 ¥563,572,972
III. Dividends	¥14,771,949,501	¥15,602,194,830
[Dividend per unit]	[¥3,683]	[¥3,890]
IV. Voluntary reserve		
Reserve for special advanced depreciation	—	¥1,174,860,958
V. Retained earnings carried forward	¥3,048,696	—
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 ¥14,774,998,197, which was calculated by adding a reversal of reserve for temporary difference adjustment of ¥769,508,609 to unappropriated retained earnings of ¥14,005,489,588, would all be distributed except for fractions of less than one yen of dividend per unit. Consequently, the dividend per unit came to ¥3,683. 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 ¥15,602,194,830, which was calculated by adding a reversal of reserve for temporary difference adjustment of ¥563,572,972 to the amount obtained by deducting reserve for special advanced depreciation (defined by Article 65-8 of the Act on Special Measures Concerning Taxation) of ¥1,174,860,958 from unappropriated retained earnings of ¥16,213,482,816, would 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, 2017	For the year ended December 31, 2018
Cash flows from operating activities		
Income before income taxes	14,006,288	16,211,644
Depreciation and amortization	3,725,775	4,091,929
Loss on retirement of noncurrent assets	132,908	35,972
Loss (Profit) on derivative instruments	(9,074)	26,574
Amortization of investment corporation bond issuance costs	20,748	27,751
Amortization of investment unit issuance costs	141,962	147,887
Decrease in property and equipment due to sale	—	19,104
Decrease in property and equipment in trust due to sale	—	9,995,677
Decrease in intangible assets due to sale	—	117,138
Interest income	(212)	(225)
Interest expense	1,073,584	1,064,961
Interest on tax refunds	(391)	(118)
(Increase) decrease in operating accounts receivable	(340,685)	(62,284)
(Increase) decrease in prepaid expenses	13,261	44,621
(Increase) decrease in long-term prepaid expenses	82,178	320,330
Increase (decrease) in operating accounts payable	(6,949)	286,480
Increase (decrease) in accrued expenses	43,449	(139,228)
Increase (decrease) in consumption taxes payable	63,796	(63,249)
Increase (decrease) in advances received	969	(18,206)
Increase (decrease) in deposits received	(95,850)	(14,782)
Other – net	(11,075)	(106,639)
Subtotal	18,840,684	31,985,341
Interest received	166	170
Interest paid	(1,076,810)	(1,045,923)
Interest received on tax refunds	391	118
Income taxes – refunded (paid)	(947)	(1,211)
Net cash provided by operating activities	17,763,484	30,938,494
Cash flows from investing activities		
Purchase of property and equipment	(557,756)	(536,481)
Purchase of property and equipment in trust	(35,256,102)	(2,399,742)
Purchase of intangible assets	(46,379)	(87,074)
Payments of reserve for repairs and maintenance	(258,870)	(40,330)
Proceeds from collection of guarantee deposits in trust	—	8,100
Reimbursements of tenant leasehold and security deposits	(16)	—
Proceeds from tenant leasehold and security deposits in trust	70,297	59,743
Reimbursements of tenant leasehold and security deposits in trust	(35,130)	(115,020)
Net cash used in investing activities	(36,083,958)	(3,110,806)
Cash flows from financing activities		
Proceeds from short-term loans payable	4,000,000	5,000,000
Repayments of short-term loans payable	(2,800,000)	(8,000,000)
Proceeds from long-term loans payable	21,700,000	10,150,000
Repayments of long-term loans payable	(9,679,250)	(20,878,750)
Proceeds from investment corporation bonds	1,000,000	10,000,000
Proceeds from issuance of investment units	18,516,225	—
Payments for investment corporation bond issuance costs	(9,218)	(68,082)
Dividends paid	(12,860,798)	(14,766,490)
Net cash provided by financing activities	19,866,959	(18,563,322)
Net increase (decrease) in cash and cash equivalents	1,546,484	9,264,365
Cash and cash equivalents at beginning of year	26,373,866	27,920,350
Cash and cash equivalents at end of year	*1 27,920,350	*1 37,184,716

(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 62 years</td></tr><tr><td>Structures in trust</td><td>2 to 62 years</td></tr><tr><td>Machinery and equipment in trust</td><td>4 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></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 62 years	Structures in trust	2 to 62 years	Machinery and equipment in trust	4 to 32 years	Tools, furniture and fixtures in trust	2 to 27 years	Software (for internal use)	5 years as internally usable years
Machinery and equipment	2 to 17 years														
Tools, furniture and fixtures	2 to 20 years														
Buildings in trust	2 to 62 years														
Structures in trust	2 to 62 years														
Machinery and equipment in trust	4 to 32 years														
Tools, furniture and fixtures in trust	2 to 27 years														
Software (for internal use)	5 years as internally usable 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 ¥75,557 thousand for the year ended December 31, 2017 and none for the year ended December 31, 2018.</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></td></tr><tr><td>Interest rate swaps</td><td></td></tr><tr><td>Interest rate caps</td><td></td></tr><tr><td>Hedged items</td><td></td></tr><tr><td>Interest rates on loans payable</td><td></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		Interest rate caps		Hedged items		Interest rates on loans payable					
Hedging instruments															
Interest rate swaps															
Interest rate caps															
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</p> <p>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.</p> <p>The following material items of the trust accounts recorded in the relevant accounts are presented separately on the balance sheets.</p> <p>(a) Cash and deposits in trust</p> <p>(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</p> <p>(c) Leasehold rights in trust; Fixed-term leasehold rights in trust; Leasehold and security deposits in trust</p> <p>(d) Tenant leasehold and security deposits in trust</p> <p>(2) Accounting treatment of consumption taxes</p> <p>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 there is thought to be not important and thus not necessary for disclosure in the financial report.

[Notes on accounting standards and other regulations yet to be applied]

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29 issued on March 30, 2018)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) in the United States have jointly developed comprehensive accounting standards for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. Given the situation where IFRS 15 will be applied from fiscal years beginning on or after January 1, 2018 and that Topic 606 will be applied from fiscal years beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standards for revenue recognition and issued them together with the Implementation Guidance.

The basic policy for the ASBJ when it developed the accounting standards for revenue recognition was to specify the accounting standards, incorporating the basic principles of IFRS 15 as a starting point, from the perspective of comparability between financial statements, which is one of the benefits of maintaining compatibility with IFRS 15. The basic policy also stipulates that if there is an item to which consideration should be given, such as practices that have been conducted thus far in Japan, alternative treatments will be added to the extent to which comparability is not impaired.

(2) Scheduled date of application

The above standards will be applied from the beginning of the fiscal year ending December 31, 2022.

(3) Impact of applying the accounting standards

The level of the impact on the financial statements of applying the “Accounting Standard for Revenue Recognition” and the like is currently under review.

[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, 2017	As of December 31, 2018
Buildings in trust	¥24,921	¥24,921

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

As of December 31, 2017

	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	-	13,127,153	-	13,127,153	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)

(Note) The remaining balance of the amount subdivided into gain on negative goodwill which was recorded as a dividend reserve prior to the previous period is reserved for temporary difference adjustment during the fiscal year, 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, 2018

(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	13,127,153	-	769,508	12,357,644	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, 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, 2017	As of December 31, 2018
	¥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, 2017	For the year ended December 31, 2018
A. Real estate operating revenue		
Real estate operating revenue		
Fixed rent	13,064,351	13,610,785
Variable rent	8,572,121	8,851,482
Income from management contracts	2,681,834	2,678,467
Total	24,318,307	25,140,735
Other real estate operating revenue		
Parking lots	179,054	173,453
Other incidental revenue	62,597	62,693
Utilities	781,934	804,915
Other	133,660	137,078
Total	1,157,246	1,178,141
Total real estate operating revenue	25,475,553	26,318,876
B. Real estate operating costs		
Real estate operating costs		
Land lease and other rent expenses	922,891	907,621
Property taxes	1,476,156	1,630,178
Outsourcing expenses (Note)	703,933	714,663
Nonlife insurance	47,030	47,798
Depreciation and amortization	3,725,775	4,091,929
Loss on retirement of noncurrent assets	132,908	35,972
Repairs	49,747	46,405
Utilities	790,728	813,911
Trust fees	43,655	42,537
Other	18,825	13,345
Total real estate operating costs	7,911,653	8,344,364
C. Net real estate operating income (A – B)	17,563,899	17,974,512

(Note) Outsourcing expenses include management contract fees of ¥343,712 thousand for the year ended December 31, 2017 and ¥337,442 thousand for the year ended December 31, 2018.

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

For the year ended December 31, 2017

Not applicable.

For the year ended December 31, 2018

(thousands of yen)

R&B Hotel Higashi-nihonbashi

Proceeds from sale of real estate	3,050,000
Cost of sale of real estate	1,483,749
Other related sales expenses	22,955
Gain on sales of real estate properties	1,543,295

the b akasaka-mitsuke

Proceeds from sale of real estate	6,600,000
Cost of sale of real estate	6,294,221
Other related sales expenses	41,508
Gain on sales of real estate properties	264,270

the b ochanomizu

Proceeds from sale of real estate	2,500,000
Cost of sale of real estate	2,353,951
Other related sales expenses	18,639
Gain on sales of real estate properties	127,408

*3. Depreciation was expensed as follows:

	For the year ended December 31, 2017	For the year ended December 31, 2018
Property and equipment	¥3,538,117	¥3,894,324
Intangible assets	¥187,658	¥197,605

[Notes to statements of changes in net assets]

	For the year ended December 31, 2017	For the year ended December 31, 2018
*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	4,010,847 units	4,010,847 units

[Notes to statements of cash dividends]

*1. Reserve for temporary difference adjustment

For the year ended December 31, 2017

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 ¥769,508,609 has been decided, which is the amount calculated by adding ¥374,000,000 for adjustment to dilution of dividend per unit due to capital increase through public offering and ¥132,908,609 equivalent to loss on retirement of fixed assets to ¥262,600,000 of the reversal.

For the year ended December 31, 2018

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 ¥563,572,972 has been decided, which is the amount calculated by adding ¥35,972,972 equivalent to loss on retirement of fixed assets and ¥265,000,000 for the large-scale renovation at Hotel Centraza Hakata 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

	For the year ended December 31, 2017	For the year ended December 31, 2018
Cash and deposits	¥16,179,716	¥25,706,559
Cash and deposits in trust	¥11,740,634	¥11,478,156
Cash and cash equivalents	¥27,920,350	¥37,184,716

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

(thousands of yen)

	As of December 31, 2017	As of December 31, 2018
Due within one year	¥1,520,073	¥1,666,631
Due after one year	¥4,685,123	¥3,562,086
Total	¥6,205,197	¥5,228,717

[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, 2017 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	16,179,716	16,179,716	—
(2) Cash and deposits in trust	11,740,634	11,740,634	—
(3) Operating accounts receivable	2,411,837	2,411,837	—
Total assets	30,332,188	30,332,188	—
(4) Short-term loans payable	3,000,000	3,000,000	—
(5) Current portion of investment corporation bonds payable	—	—	—
(6) Current portion of long-term loans payable	15,022,750	15,022,750	—
(7) Investment corporation bonds	23,600,000	23,621,270	21,270
(8) Long-term loans payable	98,777,000	98,777,000	—
Total liabilities	140,399,750	140,421,020	21,270
(9) Derivative transactions (*)	(404,316)	(404,316)	—

Carrying amounts of financial instruments on the balance sheets, their fair values, and the differences as of December 31, 2018 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	25,706,559	25,706,559	—
(2) Cash and deposits in trust	11,478,156	11,478,156	—
(3) Operating accounts receivable	2,474,121	2,474,121	—
Total assets	39,658,838	39,658,838	—
(4) Short-term loans payable	—	—	—
(5) Current portion of investment corporation bonds payable	2,000,000	2,002,200	2,200
(6) Current portion of long-term loans payable	11,117,000	11,117,000	—
(7) Investment corporation bonds	31,600,000	31,785,870	185,870
(8) Long-term loans payable	91,954,000	91,954,000	—
Total liabilities	136,671,000	136,859,070	188,070
(9) Derivative transactions (*)	(484,593)	(484,593)	—

(*) 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, 2017	As of December 31, 2018
Tenant leasehold and security deposits	1,041,016	1,041,016
Tenant leasehold and security deposits in trust	4,653,410	4,593,946
Total	5,694,426	5,634,962

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, 2017

	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	16,179,716	—	—	—	—	—
Cash and deposits in trust	11,740,634	—	—	—	—	—
Operating accounts receivable	2,411,837	—	—	—	—	—
Total	30,332,188	—	—	—	—	—

As of December 31, 2018

	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	25,706,559	—	—	—	—	—
Cash and deposits in trust	11,478,156	—	—	—	—	—
Operating accounts receivable	2,474,121	—	—	—	—	—
Total	39,658,838	—	—	—	—	—

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

As of December 31, 2017

	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	3,000,000	—	—	—	—	—
Current portion of investment corporation bonds payable	—	—	—	—	—	—
Current portion of long-term loans payable	15,022,750	—	—	—	—	—
Investment corporation bonds	—	2,000,000	—	1,500,000	6,000,000	14,100,000
Long-term loans payable	—	11,217,000	13,544,000	10,800,000	11,200,000	52,016,000
Total	18,022,750	13,217,000	13,544,000	12,300,000	17,200,000	66,116,000

As of December 31, 2018

	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	2,000,000	—	—	—	—	—
Current portion of long-term loans payable	11,117,000	—	—	—	—	—
Investment corporation bonds	—	—	1,500,000	6,000,000	—	24,100,000
Long-term loans payable	—	12,782,000	10,800,000	10,900,000	15,772,000	41,700,000
Total	13,117,000	12,782,000	12,300,000	16,900,000	15,772,000	65,800,000

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

As of December 31, 2017

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)	6,794,000	1,794,000	(15,651)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

As of December 31, 2018

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)	6,088,000	3,494,000	(37,996)	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, 2017

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	100,058,750	91,048,000	(388,665)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.
	Interest rate caps	Long-term loans payable	4,286,250	—	—	

As of December 31, 2018

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	90,654,000	81,554,000	(446,597)	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, 2017	As of December 31, 2018
Deferred tax assets:		
Valuation difference on assets accepted through merger	1,756,833	1,728,216
Amortization of fixed-term leasehold of land	76,475	119,491
Asset retirement obligations	7,603	11,259
Deferred gains (losses) on hedges	165,776	156,203
Total gross deferred tax assets	2,006,688	2,015,170
Valuation allowance	(2,006,688)	(2,015,170)
Total deferred tax assets	—	—
Deferred tax liabilities:		
Deferred gains (losses) on hedges	38,954	14,838
Total gross deferred tax liabilities	38,954	14,838

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, 2017	As of December 31, 2018
Statutory tax rate	31.74%	31.74%
[Adjustments]		
Deduction for dividends paid	(31.92%)	(29.63%)
Reserve for special advanced depreciation	—%	(2.30%)
Change in valuation allowance	0.18%	0.10%
Other – net	0.01%	0.09%
Actual effective tax rate	0.01%	0.01%

[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 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.

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, 2017	For the year ended December 31, 2018
Balance at beginning of period	441,542	443,577
Increase due to acquisition of property and equipment	—	—
Adjustment due to passage of time	2,035	2,045
Balance at end of period	443,577	445,622

[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, 2017

(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.	6,973,259	Investment and management of hotel real estate
AAPC Japan K.K.	3,098,069	Investment and management of hotel real estate

For the year ended December 31, 2018

(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.	7,200,325	Investment and management of hotel real estate
AAPC Japan K.K.	3,121,263	Investment and management of hotel real estate

[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, 2017	For the year ended December 31, 2018
Hotel	Carrying amount		
	Balance at beginning of period	284,965,547	317,229,208
	Net increase (decrease) during period	32,263,660	(10,439,828)
	Balance at end of period	317,229,208	306,789,379
	Fair value at end of period	439,390,000	437,510,000

(Note 1) Increase during the year ended December 31, 2017 principally represents the acquisition of Hilton Tokyo Narita Airport for ¥13,376 million, International Garden Hotel Narita for ¥9,237 million and Hotel Nikko Nara for ¥10,589 million. Decrease during the year ended December 31, 2018 principally represents the sale of R&B Hotel Higashi Nihonbashi for ¥1,483 million, the b akasaka-mitsuke for ¥6,294 million and the b ochanomizu for ¥2,353 million.

(Note 2) Fair value at end of period is the appraisal value determined by 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, 2017	For the year ended December 31, 2018
Hotel	Amount on the statements of income		
	Real estate operating revenue	25,475,553	26,318,876
	Real estate operating costs	7,911,653	8,344,364
	Net real estate operating income	17,563,899	17,974,512

(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 [“Operating revenue” and “Real estate operating costs,”] 【Check this definition with AC】 respectively.

[Notes on per unit information]

	For the year ended December 31, 2017	For the year ended December 31, 2018
Net assets per unit	¥50,354	¥50,705
Net income per unit	¥3,606	¥4,041

(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, 2017	For the year ended December 31, 2018
Net income (JPY 1,000)	14,005,078	16,210,434
Amount not attributable to common unitholders (JPY 1,000)	—	—
Net income for attributable to common investment units (JPY 1,000)	14,005,078	16,210,434
Average number of investment units during period (units)	3,883,679	4,010,847

[Notes on significant subsequent events]

1. Acquisition of assets

JHR acquired Hotel Oriental Express Osaka Shinsaibashi on February 1, 2019.

Property name	Hotel Oriental Express Osaka Shinsaibashi
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address (residential indication)	3-2-13, Minamimemba, Chuo-ku, Osaka-shi, Osaka
Acquisition date	February 1, 2019
Seller	Undisclosed (Note 1)
Acquisition price (Note 2)	¥2,738 million

(Note 1) The information is not disclosed as consent on disclosure has not been obtained from the seller.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of property taxes and city planning taxes, and consumption tax.

2. Conclusion of contract on acquisition of asset

On January 8, 2019, JHR concluded a purchase and sale agreement (Note 1) regarding acquisition of the following asset.

Name of asset to be acquired	Hilton Tokyo Odaiba
Asset category	Real estate beneficial interest in trust and movable assets attached to the hotel
Asset type	Hotel
Address (residential indication)	1-9-1, Daiba, Minato-ku, Tokyo
Anticipated acquisition date	April 8, 2019
Anticipated seller	Hulic Co., Ltd.
Anticipated acquisition price (Note 2)	¥62,400 million

(Note 1) The purchase and sale agreement is subject to forward commitment, etc., stipulated in the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. by Financial Services Agency. Forward commitment, etc. here is defined as “a postdated real estate transaction contract where there is an agreement to either make a financial settlement or complete transfer of asset after a period of one month or more following the conclusion of the contract, or any other similar contracts.” The purchase and sale agreement stipulates that either party may cancel the purchase and sale agreement if the other party violates the obligations stipulated in the purchase and sale agreement and that the violating party shall pay a certain amount of trading value to the other party. However, the purchase and sale agreement contains a special condition which stipulates that completion of debt financing stated in “3. Resolution on borrowing funds” below or other fundraising by JHR is a condition precedent to the payment of the transaction amount. Accordingly, in the event that debt financing or fundraising by JHR for the payment of the transaction amount is not completed, the purchase and sale agreement will be terminated without payment of cancellation penalty.

(Note 2) The acquisition price does not include expenses for acquisition, settlement of property tax and city planning tax, consumption tax and local consumption tax.

3. Resolution on borrowing of funds

At the Board of Directors meeting held on January 8, 2019, JHR resolved on the following new borrowings in order to partly fund the acquisition of the real estate beneficial interest in trust and movable assets attached to the hotel as described above in “2. Conclusion of contract on acquisition of asset.”

(1) Term Loan 53

Scheduled lender	The Bank of Fukuoka, Ltd. / The Chiba Bank, Ltd. / The Nishi-Nippon City Bank, Ltd. / Sompo Japan Nipponkoa Insurance Inc.
Planned amount of the new loan	¥2,500 million
Interest rate	To be determined (fixed rate)
Scheduled date of borrowing	April 8, 2019
Method of Borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 29, 2024
Collateral	Unsecured / Unguaranteed

(2) Term Loan 54

Scheduled lender	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Limited / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank, Ltd. / Development Bank of Japan Inc.
Planned amount of the new loan	¥7,500 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.55%
Scheduled date of borrowing	April 8, 2019
Method of Borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2027
Collateral	Unsecured / Unguaranteed

(3) Term Loan 55

Scheduled lender	Sumitomo Mitsui Banking Corporation / Shinsei Bank, Ltd. / Mizuho Bank, Ltd. / Sumitomo Mitsui Trust Bank Limited / Resona Bank, Ltd. / The Nomura Trust and Banking Co., Ltd. / Development Bank of Japan Inc. / The Bank of Fukuoka, Ltd. / Aozora Bank, Ltd. / The Nishi-Nippon City Bank, Ltd.
Planned amount of the new loan	¥18,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.60%
Scheduled date of borrowing	April 8, 2019
Method of Borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2028
Collateral	Unsecured / Unguaranteed

(4) Term Loan 56

Scheduled lender	Sumitomo Mitsui Banking Corporation
Planned amount of the new loan	¥2,000 million
Interest rate	Base interest rate (JBA Japanese Yen TIBOR for one month) + 0.275%
Scheduled date of borrowing	April 8, 2019
Method of Borrowing	Individual loan contracts to be concluded on March 11, 2019 with the lenders indicated above based on the Basic Agreement concluded on November 13, 2013 (including subsequent amendments).
Method of principal repayment	Lump-sum payment on the maturity date
Maturity date	March 31, 2020
Collateral	Unsecured / Unguaranteed

4. Issuance of new investment units

JHR resolved to issue new investment units at the Board of Directors meetings held on January 8, 2019 and January 16, 2019. Payment for the new investment units was completed on January 23, 2019 and February 20, 2019, and the investment units were issued under the following terms and conditions. As a result, JHR's unitholders' capital increased to ¥186,894,169,809, with the total number of investment units issued and outstanding being 4,462,347 units.

(1) Issuance of new investment units (domestic public offering and overseas offering)

Number of investment units issued:	447,800 units
Of which, domestic public offering:	206,247 units
Of which, overseas offering:	241,553 units
Issue price:	¥76,342 per unit
Total issue price:	¥34,185,947,600
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥33,104,510,600
Payment date:	January 23, 2019

(2) Issuance of new investment units (third-party allotment)

Number of investment units issued:	3,700 units
Paid-in amount (issue value):	¥73,927 per unit
Total paid-in amount (total issue value):	¥273,529,900
Payment date:	February 20, 2019
Allottee:	SMBC Nikko Securities Inc.

(3) Use of funds

JHR will allocate the proceeds from the issuance of new investment units through the domestic public offering and overseas offering of ¥33,104,510,600 to part of the funds for acquisition of Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba as described above in “1. Acquisition of assets” and “2. Conclusion of contract on acquisition of asset.” In addition, the proceeds from the issuance of new investment units through third-party allotment of ¥273,529,900 will be allocated to part of the funds for acquisition of Hilton Tokyo Odaiba. The residual funds of the proceeds, if any, will be retained as cash on hand to be allocated to part of the funds for future acquisition of specified assets, part of the funds for repayment of loans, or repair expenses and capital expenditures to maintain or improve competitiveness of existing properties.

(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	
September 9, 2014	Capital increase through public offering of investment units	170,000	2,791,281	10,179	59,024	(Note 1)
January 27, 2015	Capital increase through public offering of investment units	200,000	2,991,281	14,974	73,999	(Note 2)
February 18, 2015	Capital increase through third-party allotment of investment units	9,041	3,000,322	676	74,676	(Note 3)
June 22, 2015	Capital increase through public offering of investment units	140,000	3,140,322	10,500	85,177	(Note 4)
July 23, 2015	Capital increase through third-party allotment of investment units	3,905	3,144,227	292	85,470	(Note 5)
January 20, 2016	Capital increase through public offering of investment units	170,000	3,314,227	13,986	99,456	(Note 6)
February 17, 2016	Capital increase through third-party allotment of investment units	7,680	3,321,907	631	100,088	(Note 7)
July 27, 2016	Capital increase through public offering of investment units	428,260	3,750,167	33,813	133,902	(Note 8)
August 23, 2016	Capital increase through third-party allotment of investment units	11,740	3,761,907	926	134,829	(Note 9)
July 5, 2017	Capital increase through public offering of investment units	236,000	3,997,907	17,715	152,544	(Note 10)
August 2, 2017	Capital increase through third-party allotment of investment units	12,940	4,010,847	971	153,516	(Note 11)

- (Note 1) New investment units were issued through public offering with an issue price per unit of ¥61,912 (issue value of ¥59,880) in order to procure funds for the acquisition of new properties, etc.
- (Note 2) New investment units were issued through public offering with an issue price per unit of ¥77,415 (issue value of ¥74,874) in order to procure funds for the acquisition of new properties, etc.
- (Note 3) New investment units were issued through third-party allotment with an issue value per unit of ¥74,874 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of other loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 4) New investment units were issued through public offering with an issue price per unit of ¥77,512 (issue value of ¥75,007) in order to procure funds for the acquisition of new properties, etc.
- (Note 5) New investment units were issued through third-party allotment with an issue value per unit of ¥75,007 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of other loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 6) 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 7) 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 8) 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 9) New investment units were issued through third-party allotment with an issue price 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 10) 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 11) New investment units were issued through third-party allotment with an issue price 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.

4. Changes in directors

(1) Change in directors of JHR

Not applicable.

(2) Change in directors of the Asset Management Company

Not applicable.

5. 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 (<http://www.jhrth.co.jp/en/ir/library.html>).

(1) 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 STRs as of the end of the fiscal year under review.								
Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2017		As of December 31, 2018		
				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	Tokyo	ibis Tokyo Shinjuku	7,984	2.3	7,940	2.3	
			CANDEO HOTELS UENO-KOEN	6,719	1.9	6,681	1.9	
			the b ikebukuro	6,573	1.9	6,584	1.9	
			the b akasaka-mitsuke (Note 4)	6,290	1.8	-	-	
			Hotel Sunroute Shinbashi (Note 5)	4,840	1.4	4,821	1.4	
			Comfort Hotel Tokyo Higashi Nihombashi	3,593	1.0	3,557	1.0	
			the b hachioji	2,680	0.8	2,686	0.8	
			the b ochanomizu (Note 4)	2,350	0.7	-	-	
			Smile Hotel Nihombashi Mitsukoshimae	2,041	0.6	2,030	0.6	
			R&B Hotel Ueno Hirokoji	1,751	0.5	1,766	0.5	
			R&B Hotel Higashi Nihonbashi (Note 4)	1,495	0.4	-	-	
			Hotel Vista Kamata Tokyo	1,464	0.4	1,465	0.4	
			the b suidobashi	1,204	0.3	1,198	0.3	
			Dormy Inn EXPRESS Asakusa	961	0.3	952	0.3	
			Chisun Inn Kamata	789	0.2	779	0.2	
		Osaka	Holiday Inn Osaka Namba	27,083	7.7	27,033	7.7	
			Namba Oriental Hotel	14,595	4.1	14,552	4.2	
		Hokkaido	ibis Styles Sapporo	6,659	1.9	6,620	1.9	
			Mercure Sapporo	5,895	1.7	5,853	1.7	
		Fukuoka	HOTEL ASCENT FUKUOKA	5,187	1.5	5,178	1.5	
			the b hakata	2,335	0.7	2,340	0.7	
			Hakata Nakasu Washington Hotel Plaza	2,040	0.6	2,033	0.6	
			Toyoko Inn Hakata-guchi Ekimae	1,456	0.4	1,437	0.4	
		Kyoto	ibis Styles Kyoto Station	6,682	1.9	6,665	1.9	
		Okinawa	Mercure Okinawa Naha	2,889	0.8	2,860	0.8	
		Kumamoto	Dormy Inn Kumamoto	2,185	0.6	2,165	0.6	
		Nara	Nara Washington Hotel Plaza	1,835	0.5	1,802	0.5	
		Subtotal			129,588	36.8	119,010	33.9
		Full-service hotel	Chiba	Oriental Hotel tokyo bay	18,002	5.1	17,790	5.1
				Hilton Tokyo Narita Airport	13,318	3.8	13,253	3.8
				International Garden Hotel Narita	9,222	2.6	9,195	2.6
				Hotel Francs	3,155	0.9	3,187	0.9
	Hiroshima		ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,620	5.0	17,487	5.0	
			Oriental Hotel Hiroshima	4,091	1.2	4,106	1.2	
	Aichi		Hilton Nagoya	15,588	4.4	15,605	4.5	
	Nara		Hotel Nikko Nara	10,525	3.0	10,442	3.0	
	Hyogo		Kobe Meriken Park Oriental Hotel	9,893	2.8	9,772	2.8	
	Fukuoka		Hotel Centraza Hakata (Note 7)	7,341	2.1	7,178	2.0	
	Kanagawa		Mercure Yokosuka	1,636	0.5	1,642	0.5	
	Subtotal			110,397	31.3	109,661	31.3	
	Resort hotel	Okinawa	Hotel Nikko Alivila	18,128	5.1	17,989	5.1	
			Okinawa Marriott Resort & Spa	14,722	4.2	14,875	4.2	
			The Beach Tower Okinawa	6,749	1.9	6,677	1.9	
		Chiba	Hilton Tokyo Bay	26,192	7.4	26,098	7.4	
		Osaka	Hotel Keihan Universal City	5,984	1.7	5,930	1.7	
		Kanagawa	Hakone Setsugetsuka	3,798	1.1	3,722	1.1	
	Subtotal			75,576	21.5	75,295	21.5	
	Real estate in trust – Total			315,561	89.6	303,967	86.7	
	Deposits and other assets (Note 8)			36,621	10.4	46,589	13.3	
	Total assets			352,183	100.0	350,556	100.0	
				Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)	
Total liabilities				150,219	42.7	147,184	42.0	
Total net assets				201,963	57.3	203,372	58.0	

- (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 held to total assets, rounded off to one decimal place.
- (Note 4) R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu were sold on August 10, 2018.
- (Note 5) Hotel Sunroute Shinbashi is scheduled to be renamed as Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on April 23, 2019.
- (Note 6) ACTIVE-INTER CITY HIROSHIMA is classified in accordance with the business category of Sheraton Grand Hiroshima Hotel, its main facility.
- (Note 7) Hotel Centraza Hakata is scheduled to be renamed as Oriental Hotel Fukuoka Hakata Station on April 9, 2019.
- (Note 8) 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).

(2) 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	9,988	15,800	N	3.5	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	18,013	34,100	N	6.4	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,690	32,900	N	4.8	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	18,242	31,500	N	6.1	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,175	4,350	N	1.3	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	8,061	9,650	N	2.3	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,682	9,810	N	2.5	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,730	5,200	N	1.3	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,165	3,000	J	0.8	Unsecured
12	the b suidobashi	Mid-price	1,120	1,222	1,940	N	0.4	Unsecured
13	Dormy Inn EXPRESS Asakusa	Economy	999	952	1,330	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,034	4,440	N	0.7	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,805	2,430	N	0.7	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,766	1,950	J	0.6	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,557	5,680	J	1.2	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,030	3,120	J	0.7	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,437	2,780	T	0.5	Unsecured
25	Hotel Vista Kamata Tokyo	Economy	1,512	1,466	2,040	T	0.5	Unsecured
26	Chisun Inn Kamata	Economy	823	781	1,440	T	0.3	Unsecured
29	Hotel Keihan Universal City	Mid-price	6,000	5,931	13,900	R	1.9	Unsecured
30	Hotel Sunroute Shinbashi	Mid-price	4,800	4,822	8,810	D	1.6	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,102	39,600	D	8.4	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,687	11,500	D	2.1	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,658	10,800	N	2.2	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,923	10,700	N	1.9	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,891	7,760	N	1.0	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,609	7,330	N	2.1	Unsecured
39	the b hachioji	Mid-price	2,610	2,698	2,780	N	0.8	Unsecured
40	the b hakata	Mid-price	2,300	2,355	4,530	N	0.7	Unsecured
41	Hotel Francs	Mid-price	3,105	3,187	4,090	D	1.0	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,681	2,940	D	0.5	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	15,044	18,600	N	4.8	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,561	21,100	D	5.6	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,689	7,630	D	2.2	Unsecured
46	Hotel Centraza Hakata	Mid-price	7,197	8,001	8,500	D	2.3	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	27,130	27,200	N	8.7	Unsecured
48	HOTEL ASCENT FUKUOKA	Economy	4,925	5,178	6,540	D	1.6	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,605	15,700	D	4.9	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)
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,461	13,400	N	4.3	Unsecured
51	International Garden Hotel Narita	Mid-price	9,125	9,259	9,440	N	2.9	Unsecured
52	Hotel Nikko Nara	Upper-middle	10,373	10,500	11,200	D	3.4	Unsecured
	Total		309,370	306,789	437,510		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 from 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 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 omitted property numbers are the property numbers of assets that have been transferred.

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

The following is the change 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 15th period December 2014	End of 16th period December 2015	End of 17th period December 2016	End of 18th period December 2017	End of 19th period December 2018
Total number of tenants (Note 1)	57	113	128	131	126
Total leasable area (Note 2)	386,826.71 m ²	493,758.78 m ²	587,481.02 m ²	687,124.54 m ²	678,714.48 m ²
Total leased area (Note 3)	386,447.08 m ²	493,138.06 m ²	587,050.94 m ²	686,694.46 m ²	677,863.00 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 property assets (information on major real estate)

There is no major real estate of which total annual rent accounts for 10% or more of the total annual rent of the entire portfolio. “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.

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	1,210,096	957,797	640,674
2	Oriental Hotel tokyo bay	Variable/Fixed	1,888,871	1,770,283	1,357,144
3	Namba Oriental Hotel	Variable/Fixed	1,629,254	1,525,885	1,345,405
4	Hotel Nikko Alivila	Variable/Fixed	2,048,343	1,899,999	1,578,371
5	Oriental Hotel Hiroshima	Variable/Fixed	424,730	380,299	295,573
6	ibis Tokyo Shinjuku	Management contract	660,122	469,556	358,409
8	The Beach Tower Okinawa	Fixed	511,017	467,640	337,615
9	Hakone Setsugetsuka	Fixed	294,946	270,607	179,019
10	Dormy Inn Kumamoto	Fixed	194,460	170,564	128,990
12	the b suidobashi	Variable/Fixed	109,471	97,768	70,426
13	Dormy Inn EXPRESS Asakusa	Fixed	63,995	55,269	41,897
14	Hakata Nakasu Washington Hotel Plaza (Note 4)	Fixed	240,000	224,000	198,000
15	Nara Washington Hotel Plaza (Note 4)	Fixed	150,000	134,000	95,000
16	R&B Hotel Ueno Hirokoji	Fixed	97,294	83,106	69,439
17	R&B Hotel Higashi Nihonbashi (Note 5)	Fixed	74,244	63,828	51,134
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 7)	270,927	240,839	204,667
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 7)	153,465	138,046	117,898
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	141,039	127,964	109,285
25	Hotel Vista Kamata Tokyo	Variable/Fixed (Note 7)	115,241	100,121	76,255
26	Chisun Inn Kamata	Variable	82,680	75,450	63,948
29	Hotel Keihan Universal City	Variable/Fixed (Note 7)	822,800	746,999	656,782
30	Hotel Sunroute Shinbashi	Variable/Fixed (Note 7)	426,062	360,989	339,516
31	Hilton Tokyo Bay	Variable/Fixed (Note 7)	1,992,542	1,694,049	1,521,024
32	ibis Styles Kyoto Station	Management contract	548,688	473,261	436,285
33	ibis Styles Sapporo	Management contract	662,395	530,233	451,415
34	Mercure Sapporo	Management contract	820,128	532,637	446,866
35	Mercure Okinawa Naha	Management contract	456,113	373,482	317,981
36	the b akasaka-mitsuke (Note 5)	Variable/Fixed	146,475	134,858	119,970
37	the b ikebukuro	Variable/Fixed	361,036	332,064	295,945
38	the b ochanomizu (Note 5)	Variable/Fixed	58,489	52,939	45,887
39	the b hachioji	Variable/Fixed	203,227	176,553	146,754
40	the b hakata	Variable/Fixed	250,689	237,949	216,680
41	Hotel Francs	Fixed	300,000	237,807	194,249
42	Mercure Yokosuka	Variable	310,497	198,952	162,129
43	Okinawa Marriott Resort & Spa	Variable/Fixed	1,169,917	1,084,541	833,818
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed	1,526,824	1,090,707	893,130
45	CANDEO HOTELS UENO-KOEN	Fixed	349,971	323,308	283,600
46	Hotel Centraza Hakata (Note 6)	Variable/Fixed	589,421	343,659	119,879
47	Holiday Inn Osaka Namba	Variable/Fixed	1,114,357	1,068,046	920,121
48	HOTEL ASCENT FUKUOKA	Fixed	432,801	284,239	248,611
49	Hilton Nagoya	Variable	1,390,977	687,096	539,487
50	Hilton Tokyo Narita Airport	Variable/Fixed	785,260	720,053	553,599
51	International Garden Hotel Narita	Variable/Fixed	608,931	574,674	447,319
52	Hotel Nikko Nara	Variable/Fixed	629,260	591,786	462,741
	Total		26,318,876	22,104,460	17,974,512

- (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) $\text{NOI} = \text{Real estate operating revenue} - \text{Real estate operating costs} + \text{Depreciation} + \text{Loss on retirement of noncurrent assets} + \text{Asset retirement obligations expenses}$
- (Note 3) $\text{NOI after depreciation (net real estate operating income)} = \text{Real estate operating revenue} - \text{Real estate operating costs}$
- (Note 4) 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 5) R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu were sold on August 10, 2018.
- (Note 6) Hotel Centraza Hakata is under major renovation work and suspending its hotel operation during October 1, 2018 through the end of March 2019 (plan).
- (Note 7) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, Hotel Vista Kamata Tokyo, Hotel Keihan Universal City, Hotel Sunroute Shinbashi and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly has rent based on revenue sharing structure. For Comfort Hotel Tokyo Higashi-nihombashi, the rent structure was changed from “Fixed” to “Variable/Fixed”, as the rent structure was changed after a memorandum of amendment concerning the fixed-term lease agreement for Comfort Hotel Tokyo Higashi-nihonbashi was concluded on April 27, 2018.
- (Note 8) 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, 2018 to December 31, 2018). 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	Namba Oriental Hotel	Hotel Nikko Alivila	Oriental Hotel Hiroshima
Number of operating days	-	365	365	365	365	365
(A) Real estate operating revenue subtotal	26,318,876	1,210,096	1,888,871	1,629,254	2,048,343	424,730
Fixed rent	13,610,785	645,900	631,600	797,900	804,100	341,504
Variable rent	11,529,949	563,226	1,257,271	831,354	1,244,243	83,226
Other revenue	1,178,141	969	-	-	-	-
(B) Real estate operating costs subtotal	8,344,364	569,422	531,726	283,849	469,971	129,156
Land lease and other rent expenses	907,621	193,868	-	-	84,149	-
Property taxes	1,630,178	52,916	113,385	99,940	57,747	41,394
Outsourcing expenses	714,663	960	960	960	1,920	960
Nonlife insurance	47,798	3,232	3,232	1,457	2,493	1,066
Depreciation and amortization	4,091,929	315,789	397,917	170,878	314,146	82,482
Loss on retirement of noncurrent assets	35,972	1,333	15,220	9,601	7,481	2,243
Other costs	916,199	1,321	1,010	1,010	2,034	1,010
(C) Net real estate operating income = (A) - (B)	17,974,512	640,674	1,357,144	1,345,405	1,578,371	295,573
(Reference) Occupancy rate	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	130	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 EXPRESS Asakusa
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	660,122	511,017	294,946	194,460	109,471	63,995
Fixed rent	103,778	511,008	294,340	194,460	84,999	63,395
Variable rent	495,681	-	-	-	24,471	-
Other revenue	60,662	9	606	-	-	600
(B) Real estate operating costs subtotal	301,712	173,401	115,926	65,469	39,045	22,097
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	35,431	39,134	22,428	19,208	8,174	6,052
Outsourcing expenses	91,607	-	-	-	1,200	1,200
Nonlife insurance	573	1,116	650	431	187	109
Depreciation and amortization	111,146	130,024	91,587	41,574	27,250	13,372
Loss on retirement of noncurrent assets	-	-	-	-	92	-
Other costs	62,952	3,125	1,260	4,254	2,139	1,363
(C) Net real estate operating income = (A) - (B)	358,409	337,615	179,019	128,990	70,426	41,897
(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	17	18	22
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2)	Nara Washington Hotel Plaza (Note 2)	R&B Hotel Ueno Hirokoji	R&B Hotel Higashi Nihonbashi (Note 3)	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae
Number of operating days	365	365	365	221	365	365
(A) Real estate operating revenue subtotal	240,000	150,000	97,294	74,244	270,927	153,465
Fixed rent	240,000	146,000	96,504	74,244	259,721	134,400
Variable rent	-	-	-	-	-	19,065
Other revenue	0	3,000	789	-	11,205	-
(B) Real estate operating costs subtotal	42,000	54,000	27,854	23,110	66,259	35,567
Land lease and other rent expenses	-	-	-	3,280	-	-
Property taxes	11,000	11,000	12,145	5,235	26,681	12,520
Outsourcing expenses	1,000	3,000	840	729	1,614	1,200
Nonlife insurance	0	0	170	114	421	189
Depreciation and amortization	25,000	38,000	13,666	12,694	36,172	20,148
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	2,000	1,000	1,033	1,055	1,370	1,508
(C) Net real estate operating income = (A) – (B)	198,000	95,000	69,439	51,134	204,667	117,898
(Reference) Occupancy rate	100.0%	100.0%	100.0%	-	100.0%	100.0%
(Reference) Number of tenants	1	2	1	-	2	1

Property No.	24	25	26	29	30	31
Property name	Toyoko Inn Hakata-guchi Ekimae	Hotel Vista Kamata Tokyo	Chisun Inn Kamata	Hotel Keihan Universal City	Hotel Sunroute Shinbashi	Hilton Tokyo Bay
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	141,039	115,241	82,680	822,800	426,062	1,992,542
Fixed rent	141,039	93,534	-	Undisclosed (Note 5)	293,425	Undisclosed (Note 5)
Variable rent	-	21,637	82,680	Undisclosed (Note 5)	97,762	Undisclosed (Note 5)
Other revenue	-	70	-	Undisclosed (Note 5)	34,874	Undisclosed (Note 5)
(B) Real estate operating costs subtotal	31,753	38,986	18,732	166,017	86,545	471,518
Land lease and other rent expenses	-	-	-	21,110	-	132,257
Property taxes	10,508	11,907	4,681	45,142	25,531	137,595
Outsourcing expenses	1,080	1,200	1,080	5,081	7,849	23,183
Nonlife insurance	242	217	94	1,295	334	3,176
Depreciation and amortization	18,679	23,866	11,502	90,216	21,472	173,024
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	1,242	1,795	1,373	3,171	31,357	2,280
(C) Net real estate operating income = (A) – (B)	109,285	76,255	63,948	656,782	339,516	1,521,024
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	1	4	1

Property No.	32	33	34	35	36	37
Property name	ibis Styles Kyoto Station (Note 1)	ibis Styles Sapporo (Note 1)	Mercure Sapporo (Note 1)	Mercure Okinawa Naha (Note 1)	the b akasaka-mitsuke (Note 3)	the b ikebukuro
Number of operating days	365	365	365	365	221	365
(A) Real estate operating revenue subtotal	548,688	662,395	820,128	456,113	146,475	361,036
Fixed rent	42,334	21,545	66,051	-	82,856	220,505
Variable rent	502,753	596,733	636,539	447,761	63,618	138,395
Other revenue	3,600	44,116	117,536	8,352	-	2,136
(B) Real estate operating costs subtotal	112,402	210,980	373,261	138,132	26,504	65,091
Land lease and other rent expenses	-	-	40	309	-	-
Property taxes	18,832	36,607	48,424	22,933	9,356	20,395
Outsourcing expenses	53,859	54,250	142,146	55,854	729	4,241
Nonlife insurance	412	820	831	788	131	400
Depreciation and amortization	36,975	78,817	85,770	55,501	14,888	36,119
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	2,322	40,484	96,048	2,744	1,399	3,934
(C) Net real estate operating income = (A) – (B)	436,285	451,415	446,866	317,981	119,970	295,945
(Reference) Occupancy rate	100.0%	98.3%	98.1%	100.0%	-	100.0%
(Reference) Number of tenants	2	4	14	1	-	4

Property No.	38	39	40	41	42	43
Property name	the b ochanomizu (Note 3)	the b hachioji	the b hakata	Hotel Francs	Mercure Yokosuka	Okinawa Marriott Resort & Spa
Number of operating days	221	365	365	365	365	365
(A) Real estate operating revenue subtotal	58,489	203,227	250,689	300,000	310,497	1,169,917
Fixed rent	41,919	122,765	89,522	300,000	-	550,000
Variable rent	16,373	73,676	161,167	-	266,983	619,917
Other revenue	196	6,785	-	-	43,513	-
(B) Real estate operating costs subtotal	12,602	56,473	34,009	105,750	148,367	336,099
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	3,812	21,423	9,415	58,974	35,521	79,818
Outsourcing expenses	729	1,200	1,200	1,800	19,492	2,400
Nonlife insurance	70	437	254	919	1,717	2,308
Depreciation and amortization	7,052	29,798	21,269	43,557	36,822	250,722
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	938	3,613	1,869	498	54,812	849
(C) Net real estate operating income = (A) – (B)	45,887	146,754	216,680	194,249	162,129	833,818
(Reference) Occupancy rate	-	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	-	12	2	1	1	1

Property No.	44	45	46	47	48	49
Property name	ACTIVE-INTER CITY HIROSHIMA	CANDEO HOTELS UENO-KOEN	Hotel Centraza Hakata (Note 4)	Holiday Inn Osaka Namba	HOTEL ASCENT FUKUOKA	Hilton Nagoya
Number of operating days	365	365	365	365	365	365
(A) Real estate operating revenue subtotal	1,526,824	349,971	589,421	1,114,357	432,801	1,390,977
Fixed rent	777,615	Undisclosed (Note 5)	400,000	576,000	308,840	Undisclosed (Note 5)
Variable rent	464,271	-	189,421	538,357	-	Undisclosed (Note 5)
Other revenue	284,937	Undisclosed (Note 5)	-	-	123,961	Undisclosed (Note 5)
(B) Real estate operating costs subtotal	633,693	66,371	469,542	194,236	184,189	851,490
Land lease and other rent expenses	-	-	222,206	-	27,998	222,401
Property taxes	116,776	23,071	18,570	42,775	31,432	101,915
Outsourcing expenses	92,595	1,200	3,000	1,560	13,356	108,898
Nonlife insurance	3,331	474	1,139	1,136	481	3,277
Depreciation and amortization	197,577	39,708	222,181	147,924	35,181	147,608
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	223,413	1,917	2,445	838	75,741	267,388
(C) Net real estate operating income = (A) – (B)	893,130	283,600	119,879	920,121	248,611	539,487
(Reference) Occupancy rate	99.8%	100.0%	100.0%	100.0%	96.8%	100.0%
(Reference) Number of tenants	39	1	1	1	5	4

Property No.	50	51	52
Property name	Hilton Tokyo Narita Airport	International Garden Hotel Narita	Hotel Nikko Nara
Number of operating days	365	365	365
(A) Real estate operating revenue subtotal	785,260	608,931	629,260
Fixed rent	444,000	336,000	420,000
Variable rent	340,560	272,931	209,260
Other revenue	700	-	-
(B) Real estate operating costs subtotal	231,660	161,611	166,518
Land lease and other rent expenses	-	-	-
Property taxes	58,585	29,604	30,410
Outsourcing expenses	2,520	2,280	2,760
Nonlife insurance	3,148	1,429	2,840
Depreciation and amortization	166,454	127,354	129,044
Loss on retirement of noncurrent assets	-	-	-
Other costs	953	943	1,462
(C) Net real estate operating income = (A) – (B)	553,599	447,319	462,741
(Reference) Occupancy rate	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	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 58.

(Note 2) 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 3) R&B Hotel Higashi-nihonbashi, the b akasaka-mitsuke and the b ochanomizu were sold on August 10, 2018.

(Note 4) Hotel Centraza Hakata is under major renovation work and suspending hotel operation during October 1, 2018 through the end of March 2019 (plan).

(Note 5) 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 and thus considered to be a case where disclosure cannot be made due to unavoidable circumstances.

(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
The Existing HMJ Group	1	Kobe Meriken Park Oriental Hotel	Variable/Fixed	When total GOP of the five HMJ hotels exceeds GOP base amount (set at ¥3,351 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 85.0%. GOP base amount is set individually for each hotel for such purposes as payment of variable rent from each hotel. The breakdown of GOP base amount is presented below (Note 1).
	2	Oriental Hotel Tokyo Bay		
	3	Namba Oriental Hotel		
	4	Hotel Nikko Alivila		
	5	Oriental Hotel Hiroshima		
	43	Okinawa Marriott Resort & Spa	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥700 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 90.0%
	44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed (Note 2)	When hotel GOP exceeds GOP base amount (set at ¥468 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 82.5%
	46	Hotel Centraza Hakata	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥425 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 90.0%
	47	Holiday Inn Osaka Namba	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥650 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 92.5%
	50	Hilton Tokyo Narita Airport	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥550 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 86.5%
	51	International Garden Hotel Narita	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥360 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 98.0%
	52	Hotel Nikko Nara	Variable/Fixed	When hotel GOP exceeds GOP base amount (set at ¥470 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 91.5%
The Accor Group	6	ibis Tokyo Shinjuku	Management contract (Note 3)	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
The Ishin Group	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 5)
	36	the b akasaka-mitsuke (Note 4)		
	37	the b ikebukuro		
	38	the b ochanomizu (Note 4)		
	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 5) (Note 6)
	22	Smile Hotel Nihombashi Mitsukoshimae	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	25	Hotel Vista Kamata Tokyo	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 5)
	30	Hotel Sunroute Shinbashi	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	31	Hilton Tokyo Bay	Fixed + Revenue sharing	Amount that is a certain percentage of sales exceeding the threshold (Note 5)
	49	Hilton Nagoya	Variable	Variable rents linked to hotel sales, etc. (Note 5)

(Note 1) Breakdown of the GOP base amount set individually for the five HMJ hotels

Hotel name	Annual GOP base amount
Kobe Meriken Park Oriental Hotel	¥599,900 thousand
Oriental Hotel tokyo bay	¥693,200 thousand
Namba Oriental Hotel	¥832,200 thousand
Hotel Nikko Alivila	¥995,700 thousand
Oriental Hotel Hiroshima	¥230,000 thousand
Total	¥3,351,000 thousand

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

(Note 3) 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 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 4) the b akasaka-mitsuke and the b ochanomizu were sold on August 10, 2018.

(Note 5) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee.

(Note 6) Concerning the fixed-term lease agreement for Comfort Hotel Tokyo Higashi Nihombashi, a memorandum of amendment was concluded on April 27, 2018 to amend the structure to one that sets not only fixed rent, but to also include rent based on revenue sharing.

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the Existing HMJ Group for the operating period from January 1, 2018 through December 31, 2018 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		Namba Oriental Hotel		Hotel Nikko Alivila		Oriental Hotel Hiroshima		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	84.8%	—	96.7%	—	92.8%	—	84.9%	—	87.2%	—	89.9%	—
ADR (Note 1)	17,166	—	20,464	—	19,469	—	28,738	—	9,409	—	20,112	—
RevPAR (Note 2)	14,564	—	19,797	—	18,073	—	24,392	—	8,208	—	18,080	—
Total sales	5,442	100.0	6,839	100.0	2,891	100.0	6,433	100.0	1,904	100.0	23,509	100.0
Rooms department	1,872	34.4	4,019	58.8	1,878	65.0	3,894	60.5	748	39.3	12,411	52.8
Food & beverage department	3,277	60.2	2,392	35.0	130	4.5	1,888	29.4	1,095	57.5	8,782	37.4
Tenant department	70	1.3	230	3.4	834	28.8	2	0.0	23	1.2	1,159	4.9
Other departments (Note 3)	223	4.1	198	2.9	50	1.7	648	10.1	38	2.0	1,157	4.9
GOP	1,263	23.2	2,172	31.8	1,810	62.6	2,460	38.2	328	17.2	8,033	34.2

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel (Note 4)		Hotel Centraza Hakata (Note 5)		Holiday Inn Osaka Namba		Hilton Tokyo Narita Airport		International Garden Hotel Narita	
		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	83.0%	—	91.2%	—	70.7%	—	93.8%	—	86.0%	—	85.5%	—
ADR (Note 1)	21,291	—	18,381	—	12,074	—	18,063	—	10,710	—	7,526	—
RevPAR (Note 2)	17,669	—	16,757	—	8,534	—	16,947	—	9,216	—	6,438	—
Total sales	4,027	100.0	3,372	100.0	1,836	100.0	1,991	100.0	3,271	100.0	1,521	100.0
Rooms department	2,573	63.9	1,601	47.5	667	36.4	1,944	97.7	2,063	63.1	1,197	78.7
Food & beverage department	1,009	25.1	1,673	49.6	951	51.8	—	—	1,112	34.0	311	20.5
Tenant department	62	1.5	—	—	206	11.2	36	1.8	50	1.5	6	0.4
Other departments (Note 3)	383	9.5	98	2.9	11	0.6	10	0.5	46	1.4	7	0.5
GOP	1,389	34.5	1,016	30.1	635	34.6	1,232	61.9	944	28.9	639	42.0

	Hotel Nikko Nara		The Existing HMJ Group Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	76.4%	—	86.7%	—
ADR (Note 1)	12,480	—	16,481	—
RevPAR (Note 2)	9,535	—	14,289	—
Total sales	2,893	100.0	42,421	100.0
Rooms department	1,264	43.7	23,720	55.9
Food & beverage department	1,579	54.6	15,416	36.3
Tenant department	31	1.1	1,551	3.7
Other departments (Note 3)	20	0.7	1,734	4.1
GOP	699	24.2	14,586	34.4

- (Note 1) ADR: Represents average daily rate, which is calculated by dividing revenue for rooms for a given period (excluding service charges) by the total number of rooms sold during the period. Holiday Inn Osaka Namba, does not request service charges.
- (Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing revenue for rooms for a certain period (excluding service charges) by the total number of rooms available for sale during the period. Revenue per available room given the product of ADR and occupancy rate. The same shall apply hereinafter.
- (Note 3) Figures for the other departments include sales of the department for sale of goods.
- (Note 4) The indicated figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.
- (Note 5) Hotel Centraza Hakata is under major renovation work and suspending hotel operation during October 1, 2018 through the end of March 2019 (plan). The occupancy rate is calculated including the suspension period.
- (Note 6) For Total/Average of the Existing HMJ Group, figures are calculated by JHR as reference since no figures have been provided by the hotel lessees.
- (Note 7) The occupancy rate is rounded off to one decimal place, while ADR and RevPAR are rounded off to single units. 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. The same shall apply hereinafter.

D. 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 for real estate properties (in trust) under management by JHR. Expenditures are expected to total ¥6,842 million, which consists of capital expenditures of ¥6,778 million and repair expenses of ¥64 million, for the next fiscal year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY1M)	
			Total amount	Total amount paid
R&B Hotel Ueno Hirokoji (Taito-ku, Tokyo)	Renewal of air conditioning units	From January 2019 to March 2019	54	—
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention switchboard	From October 2019 to November 2019	53	—
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Land preparation for parking lot	From December 2018 to May 2019	423	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guestrooms	From February 2019 to March 2019	66	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of restaurants	From May 2019 to June 2019	233	—
Hotel Centraza Hakata (Fukuoka-shi, Fukuoka)	Major renovation works for entire property	From October 2018 to March 2019	3,100	704
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renovation of guest rooms (guestrooms on the 10th and 11th floors)	From May 2019 to May 2019	72	—
Hotel Nikko Nara (Nara-shi, Nara)	Renewal of surface of interior for one floor	From May 2019 to June 2019	128	—
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From March 2019 to November 2019	55	—
Total			4,185	704

(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)

For real estate properties (in trust) under management by JHR, major construction work conducted during the fiscal year under review that represents capital expenditures is as below. Capital expenditures for the fiscal year under review totaled ¥3,056 million, and repair expenses that were accounted for as expense in the fiscal year under review totaled ¥46 million. In aggregate, ¥3,102 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY1M)
Kobe Meriken Park Oriental Hotel (Kobe-shi, Hyogo)	Renewal of telephone switchboard	From May 2018 to July 2018	41
Oriental Hotel Tokyo Bay (Urayasu-shi, Chiba)	Increase the number of guestrooms associated with relocation of Mama Salon and renovation of front lobby	From October 2018 to December 2018	144
Namba Oriental Hotel (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th floor	From January 2018 to February 2018	78
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guestrooms	From September 2018 to December 2018	260
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 6th and 7th floors	From January 2018 to February 2018	58
Holiday Inn Osaka Namba (Osaka-shi, Osaka)	Renewal of guest rooms on the 4th and 12th floor	From September 2018 to September 2018	57
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of drainage for sewage and gray water pipes	From June 2017 to January 2018	55
Total			696

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