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August 22, 2019

Midterm Financial Report for the Fiscal Year Ending December 31, 2019 (January 1, 2019 – June 30, 2019)

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.
Representative: Hisashi Furukawa, Representative Director and President
Contact: Noboru Itabashi, Director and Senior General Manager of Operations Division
Phone: +81-3-6422-0530

Scheduled date to file midterm Securities Report: September 18, 2019

Preparation of supplementary material on midterm financial report: Yes
Schedule for presentation of midterm financial results: Yes (Institutional investors and analysts only)

(Amounts are rounded down to the nearest million yen)

1. Status summary of operation and assets for the midterm of the fiscal year ending December 31, 2019 (January 1, 2019 – June 30, 2019)

(1) Operating results

(Percentages: full year—changes from the previous year, midterm period—changes from the previous midterm period)

	Operating revenue		Operating income		Ordinary income		Net income	
Midterm period ended	JPY1M	%	JPY1M	%	JPY1M	%	JPY1M	%
June 30, 2019	12,719	3.2	7,293	(0.4)	6,354	(0.5)	6,353	(0.5)
June 30, 2018	12,321	9.3	7,319	8.6	6,387	7.3	6,387	7.3
Fiscal year ended								
December 31, 2018	28,253	10.9	17,993	14.2	16,211	15.7	16,210	15.7

	Net income per unit
Midterm period ended	JPY
June 30, 2019	1,441
June 30, 2018	1,592
Fiscal year ended	
December 31, 2018	4,041

(Note) Net income per unit is calculated based on the period-average number of investment units issued.

(2) Financial position

	Total assets	Net assets	Equity ratio	Net assets per unit
Midterm period ended	JPY1M	JPY1M	%	JPY
June 30, 2019	406,018	227,021	55.9	50,874
June 30, 2018	343,603	193,731	56.4	48,301
Fiscal year ended				
December 31, 2018	350,556	203,372	58.0	50,705

(Note) Net assets per unit are calculated based on the total number of investment units issued and outstanding at the end of the midterm period / full year.

(3) Cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period/year
Midterm period ended	JPY1M	JPY1M	JPY1M	JPY1M
June 30, 2019	8,368	(70,001)	49,260	24,811
June 30, 2018	9,103	(1,435)	(14,164)	21,422
Fiscal year ended				
December 31, 2018	30,938	(3,110)	(18,563)	37,184

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
Full year	28,666	1.5	17,227	(4.3)	15,274	(5.8)	15,273	(5.8)	3,686	—

(Reference) Estimated net income per unit for the fiscal year ending December 31, 2019 (full year) ¥3,444

(Calculated based on the estimate of period-average number of investment units of 4,434,849.)

(Note) The source of the dividend payment is planned to be the total amount of net income, plus the reversed amount of the reserve for temporary difference adjustment (¥1,177 million).

*** 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 midterm period / full year

(including investment units owned by Japan Hotel REIT Investment Corporation (hereinafter referred to as “JHR”))

As of June 30, 2019 4,462,347 units

As of June 30, 2018 4,010,847 units

As of December 31, 2018 4,010,847 units

(b) Number of JHR's own investment units held at the end of the midterm period / full year

As of June 30, 2019 0 units

As of June 30, 2018 0 units

As of December 31, 2018 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 35.

*** Status of midterm audit procedures**

At the time of disclosure of this midterm financial report, audit procedures for the semi-annual 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 midterm 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 “1. Operating results; (1) Operating results; (B) Outlook for the second half of the fiscal year” on page 6 and “Assumptions of the operating forecast for the full year of the fiscal year ending December 31, 2019 (20th period)” on page 10.

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1. Operating results

(1) Operating results

(A) Overview of the midterm period under review

(a) Brief history and principal activities

Japan Hotel REIT Investment Corporation (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 as social infrastructure and profitability as investment real estate of hotels, JHR primarily invests in real estate which are wholly or partially used as hotels or real estate equivalents of such real estate or related assets that are backed by such real estate or real estate equivalents (hereinafter referred to as “Real Estate for Hotels, etc.”).

JHR, the former Nippon Hotel Fund Investment Corporation, merged with Japan Hotel and Resort, Inc. 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 nine public offerings for capital increase and continuously acquired “highly-competitive hotels” in mainly “strategic investment 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 26 properties amounting to ¥275,160 million (acquisition price basis) in total in the little more than seven years since the Merger to the end of the midterm period under review (June 30, 2019). As a result, JHR had a portfolio of 43 properties with a combined acquisition price of ¥374,508 million, and the total number of investment units issued and outstanding stood at 4,462,347 units at the end of the midterm period under review.

(b) Investment performance for midterm period under review

During the midterm period under review (six-month period from January 1, 2019 to June 30, 2019), the domestic accommodation market and tourism market have remained strong although the impact of the future course of trade issues on the world economy requires careful attention. During the said period, the cumulative number of overnight guests at domestic accommodation facilities totaled 261.7 million guest nights (preliminary release), indicating solidness in the accommodation market. Furthermore, the number of foreign visitors to Japan (hereinafter referred to as “inbound”) was estimated 16.6 million (up 4.6% from the same period in the previous year) during the period, marking a record high for the January to June period.

The hotel investment market continued to be in a brisk state against the backdrop of the expected growth in demand for accommodation, with continual attention paid to Japan’s tourism industry and hotel industry. JHR has continuously expanded its asset size capitalizing on the strengths such as high recognition as Japan’s largest J-REIT specializing in hotels, capability to propose various acquisition schemes and cooperation with Hotel Management Japan Co., Ltd. (hereinafter referred to as “HMJ”), a group company.

During the midterm period under review (six-month period from January 1, 2019 to June 30, 2019), JHR acquired Hilton Tokyo Odaiba (acquisition price: ¥62,400 million), a scarce large-scale full-service hotel positioned as JHR’s flagship property; and Hotel Oriental Express Osaka Shinsaibashi (acquisition price: ¥2,738 million), a hotel which HMJ has been involved with since the beginning of development and has managed utilizing its market knowledge and operational know-how since the opening. Amid some overheated mood in the hotel investment market, JHR improved the portfolio quality through acquisitions that leveraged its strengths of proposing and executing various acquisition schemes for acquisitions.

The performance of hotels owned by JHR mostly remained solid in Tokyo, Hiroshima, Fukuoka, etc. However, RevPAR (Note 2) and GOP (gross operating profit) of the 21 hotels with variable rent, etc. (Note 1) fell slightly below the same period of the previous year due to the impact of the increase in new hotel supplies in the Kansai region, etc.

While taking measures to increase fixed and variable rent, etc. through the active asset management strategy, which is the

aggressive and proactive pursuit of greater profitability and asset value of owned hotels, JHR will endeavor to generate greater earnings 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. For further details of sales, GOP and other management indicators for the 21 hotels with variable rent, etc., please refer to “<Reference Information 3> Hotel operation indexes, sales and GOP” on page 17.

(Note 1) The hotel group combining the hotels which JHR leases to 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), Oriental Hotel Fukuoka Hakata Station, Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, Hotel Nikko Nara, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba) is called the HMJ Group Hotels. The 21 hotels with variable rent, etc. refers to the HMJ Group Hotels excluding Oriental Hotel Fukuoka Hakata Station, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba (hotels for which comparison with previous period is not possible due to renovation or new acquisition) 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.

(Note 2) RevPAR represents revenue per available room, which is calculated by dividing revenue for rooms department for a certain period (including service charge) by the total number of rooms available for sale during the period. Revenue per available room is the product of ADR and occupancy rate. ADR represents average daily rate, which is calculated by dividing revenue for rooms department for a given period (including service charges) by the total number of rooms sold during the period.

(c) Funding status

During the midterm period under review (six-month period from January 1, 2019 to June 30, 2019), JHR took out loans of ¥30,000 million in total in April 2019, in addition to procuring ¥33,378 million by way of capital increase through public offering in January 2019 and third-party allotment in February 2019; and acquired two properties, Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba in February and April 2019, respectively.

In March 2019, JHR took out loans of ¥6,000 million in total mainly to refinance investment corporation bonds that had matured and borrowings that were due for repayment. Furthermore, JHR took out loans of ¥1,800 million mainly for renovation of Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata) (Note 1). In addition, JHR issued investment corporation bonds of ¥8,000 million for individual investors in June 2019 and allocated the funds to the prepayment of existing loans.

Consequently, as of the end of the midterm period under review, balance of interest-bearing debt totaled ¥168,371 million, including short-term loans payable of ¥900 million, current portion of long-term loans payable of ¥13,709 million, long-term loans payable of ¥114,162 million and investment corporation bonds of ¥39,600 million, and the ratio of interest-bearing debt to total assets at end of the midterm period (Note 2) stood at 41.5%.

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 (except for some short-term loans) to hedge against risks of interest rates rising in the future. These actions brought the fixed rate ratio on total interest-bearing debt at the end of the midterm period under review to 96.6%.

(Note 1) Former Hotel Centraza Hakata underwent major renovation work accompanying the suspension of hotel operations from October 1, 2018, and has been operated as Oriental Hotel Fukuoka Hakata Station since April 9, 2019.

(Note 2) Ratio of interest-bearing debt to total assets at end of the midterm period = Balance of interest-bearing debt at end of the midterm period ÷ Total assets at end of the midterm period × 100

As of the end of the midterm period under review, JHR's issuer ratings were as follows.

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

(d) Financial results

As a result of the abovementioned asset management, operating revenue, operating income and ordinary income were

¥12,719 million, ¥7,293 million and ¥6,354 million, respectively, for the midterm period under review (six-month period from January 1, 2019 to June 30, 2019). Net income for the midterm period under review was ¥6,353 million.

Variable rent from the hotels with variable rent leased to the HMJ Group Hotels in the amount of ¥2,247 million is included in operating revenue, but this amount is calculated based on the GOP of the HMJ Group Hotels for the midterm period under review. The variable rent to be ultimately received from the HMJ Group Hotels will be determined by the full-year GOP (12-month period) (for Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba, from the time of the acquisition by JHR to the end of the year) of the HMJ Group Hotels.

JHR settles accounts on an annual basis and investment corporations do not have a system for interim dividends under the Investment Trusts Act. Accordingly, no distribution of earnings can be made in the midterm period under review. Distribution of earnings is made based on the earnings for the full year (12-month period from January 1, 2019 to December 31, 2019). With regard to such distribution of earnings, in accordance with the policy for earnings dividend to exceed 90% of JHR's distributable profit that is defined by Article 67-15 of the Act on Special Measures Concerning Taxation (Act No. 26 of 1957; as amended; hereinafter called "the Act on Special Measures Concerning Taxation"). The plan is, for the period ending December 31, 2019, that the amount calculated by adding a reversal of reserve for temporary difference adjustment (amount of use of negative goodwill, such as for the dilution of dividend per unit due to capital increase through public offering, the amount equivalent to 50-year amortization amount of negative goodwill (Note), loss on retirement of fixed assets incurred by the replacement of facilities and correspondence to major renovation work of Oriental Hotel Fukuoka Hakata Station, etc.) to unappropriated retained earnings, would all be distributed except for fractions of less than one yen of dividend per unit.

(Note) For 50-year amortization amount of negative goodwill, please refer to Dividend per Unit (Note 1) of "Assumptions of the operating forecast for the full year of the fiscal year ending December 2019 (20th period)" on page 13.

(B) Outlook for the second half of the fiscal year

(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 2.4 times year on year to ¥66.5 billion (except reconstruction budget). Moreover, with the number of inbound tourists continuing to increase notably and domestic leisure demand remaining solid, such major events as Rugby World Cup 2019 and Tokyo 2020 Olympic and Paralympic Games that will 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 partly because of an increase in supply from new development of hotels following trends of increase in inbound tourism. 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 the aforementioned differentiation, whether profitability including cost management can be enhanced will make a further difference in hotel performance. Under recognition of such circumstances, JHR intends to work with the Asset Management Company to implement strategies to differentiate hotels owned by JHR in the market by utilizing experience which JHR has cultivated as a 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 in 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 the ability of each tenant to bear the cost of rent, and plans to aim at raising rents (including introduction of a revenue sharing structure) in accordance with the conditions of the accommodation market.

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 as well as 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 hotel performance by requesting them to implement marketing initiatives to attract a wider range of demand with considerations given to solid domestic leisure demand and increasing leisure demand from inbound visitors, measures to maintain and increase room rates, and realization of synergy effects like cost reductions from operating multiple properties, among other issues. Moreover, JHR conducts strategic capital expenditure (CAPEX) 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 the ability of each tenant to bear the cost of rent, conduct negotiations with the hotels at which the ability to bear the cost of rent 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 execute investment for the purpose of an ongoing program of facilities and equipment maintenance and improvement to ensure each hotel becomes prominent in the market and to maintain and enhance asset value.

External growth

In terms of external growth strategy, JHR will continue targeting acquisition of 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 it has done to date. In addition, JHR will build a portfolio which can secure stable revenues with future growth potential in mind in order to achieve upside gains.

Upon acquiring properties, JHR will focus on infrastructure aspects of the relevant Hotel Assets such as buildings and facilities, services aspects such as the credibility of the hotel lessee and operator (including the ability of the hotel lessee to bear the cost of rent) as well as operation and management capabilities, and the properties' locational superiority that serves as the base for stability in demand and growth potential.

Specifically, JHR will aim 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, profitability, etc. of the properties. 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 acquisition is ongoing due in part to an increase in J-REITs and formation of non-listed private J-REITs that invest in hotels. 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 a 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 the interest rate market by extending maturity dates and fixing rates, etc., in preparation for addressing any change in the environment of the financial market.

Policy on the handling of negative goodwill

JHR has conducted 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 since the fiscal year ended December 31, 2017 (18th period). 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 offering, 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 the additional portion of negative goodwill on top of the 50-year amortization amount of negative goodwill (¥262 million) (Note).

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 Oriental Hotel Fukuoka Hakata Station (¥357 million) as additional amounts to dividends by reversing negative goodwill.

(Note) The policy may change due to a resolution of the board of directors, and it does not guarantee specific amounts, etc., for the future.

Initiatives for Sustainability

In recent years, the risks and opportunities of ESG (Environment, Social and Governance) issues have grown in importance 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 hotel properties owned by a J-REIT (Note 1). Moreover, in September 2018, JHR became the first J-REIT specializing in hotels (Note 1) to be 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. Furthermore, JHR issued green bonds in July 2019 to allocate funds mainly to work contributing to energy conservation of the renovation work at Oriental Hotel Fukuoka Hakata Station. It was the first case of a J-REIT specializing in hotels issuing green bonds (Note 1).

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 public 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

Not applicable.

(c) Operating forecast

The following is JHR's operating forecast for 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 full year of the fiscal year ending December 31, 2019 (20th period)" on page 10.

	Forecast this time	Previous forecast (Note 1)	Increase (Decrease)
Full year of the fiscal year ending December 31, 2019 (20th period)			
Operating revenue	¥28,666 million	¥28,876 million	¥(210) million
Operating income	¥17,227 million	¥17,371 million	¥(143) million
Ordinary income	¥15,274 million	¥15,274 million	¥0 million
Net income	¥15,273 million	¥15,273 million	¥0 million
Dividend per unit	¥3,686	¥3,686	¥—
Dividend per unit resulting from excess of earnings	¥—	¥—	¥—

(Note 1) These are the figures announced in the "Financial Report for the Fiscal Year Ended December 31, 2018 (19th Period)" dated February 20, 2019.

(Note 2) The forecast figures above are the current forecasts calculated based on certain assumptions. As such, actual operating revenue, operating income, ordinary income, net income, 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 full year of the fiscal year ending December 2019 (20th period)

Item	Assumptions																																																																																																																																																																								
Calculation Period	<ul style="list-style-type: none"> Full year of the fiscal year ending December 2019 (20th Period): January 1, 2019 through December 31, 2019 (365 days). 																																																																																																																																																																								
Assets under Management	<ul style="list-style-type: none"> The 43 properties owned by JHR as of today are assumed. It is assumed that there will be no change (acquisition or disposition of properties, etc.) in assets under management through the end of the fiscal year ending December 2019 (20th period). However, the actual results may fluctuate depending on changes in assets under management that may take place. 																																																																																																																																																																								
Operating Revenue	<ul style="list-style-type: none"> Operating revenue is calculated based on the conditions of the lease and other contracts effective as of today, taking the competitiveness of hotels, market environment and other factors into consideration. If there are lease contracts with regard to facilities other than hotels, such as retail facilities and offices, operating revenue calculated based on the said lease contracts is included. Rents, etc. of the main hotels are calculated based on the following assumptions. <p>(1) The 21 hotels with variable rent, etc. (*1) 1) The Twelve HMJ Hotels (*1) The assumptions of the fixed rent and variable rent are as follows. Total rent = Fixed rent + Variable rent 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>Total GOP of the hotel(s)</th><th>GOP base amount</th><th>Variable rent ratio</th><th>Variable rent</th><th>Fixed rent</th><th>Total rent</th></tr> <tr> <td rowspan="2">The Five HMJ Hotels (*1)</td><td>Midterm</td><td>3,276</td><td>1,675</td><td rowspan="2">85.0%</td><td>1,360</td><td>1,610</td><td>2,970</td></tr> <tr> <td>Full year</td><td>7,985</td><td>3,351</td><td>3,939</td><td>3,221</td><td>7,160</td></tr> <tr> <td rowspan="2">Okinawa Marriott Resort & Spa</td><td>Midterm</td><td>378</td><td>350</td><td rowspan="2">90.0%</td><td>25</td><td>274</td><td>300</td></tr> <tr> <td>Full year</td><td>1,248</td><td>700</td><td>493</td><td>550</td><td>1,043</td></tr> <tr> <td rowspan="2">Sheraton Grand Hiroshima Hotel(*2)</td><td>Midterm</td><td>515</td><td>234</td><td rowspan="2">82.5%</td><td>232</td><td>174</td><td>406</td></tr> <tr> <td>Full year</td><td>1,088</td><td>468</td><td>512</td><td>348</td><td>860</td></tr> <tr> <td rowspan="2">Oriental Hotel Fukuoka Hakata Station (*3)</td><td>Midterm</td><td>131</td><td>212</td><td rowspan="2">90.0%</td><td>-</td><td>199</td><td>199</td></tr> <tr> <td>Full year</td><td>760</td><td>425</td><td>301</td><td>400</td><td>701</td></tr> <tr> <td rowspan="2">Holiday Inn Osaka Namba</td><td>Midterm</td><td>570</td><td>325</td><td rowspan="2">92.5%</td><td>227</td><td>288</td><td>515</td></tr> <tr> <td>Full year</td><td>1,159</td><td>650</td><td>471</td><td>576</td><td>1,047</td></tr> <tr> <td rowspan="2">Hilton Tokyo Narita Airport</td><td>Midterm</td><td>489</td><td>275</td><td rowspan="2">86.5%</td><td>185</td><td>222</td><td>407</td></tr> <tr> <td>Full year</td><td>1,051</td><td>550</td><td>433</td><td>444</td><td>877</td></tr> <tr> <td rowspan="2">International Garden Hotel Narita</td><td>Midterm</td><td>323</td><td>180</td><td rowspan="2">98.0%</td><td>141</td><td>168</td><td>309</td></tr> <tr> <td>Full year</td><td>658</td><td>360</td><td>292</td><td>336</td><td>628</td></tr> <tr> <td rowspan="2">Hotel Nikko Nara</td><td>Midterm</td><td>316</td><td>235</td><td rowspan="2">91.5%</td><td>74</td><td>210</td><td>284</td></tr> <tr> <td>Full year</td><td>670</td><td>470</td><td>183</td><td>420</td><td>603</td></tr> <tr> <td rowspan="2">Subtotal</td><td>Midterm</td><td>6,002</td><td>-</td><td rowspan="2">-</td><td>2,247</td><td>3,147</td><td>5,394</td></tr> <tr> <td>Full year</td><td>14,624</td><td>-</td><td>6,628</td><td>6,295</td><td>12,923</td></tr> <tr> <td rowspan="2">ACTIVE-INTER CITY HIROSHIMA (Office and commercial tenants)</td><td>Midterm</td><td>-</td><td>-</td><td rowspan="2">-</td><td>6</td><td>230</td><td>236</td></tr> <tr> <td>Full year</td><td>-</td><td>-</td><td>11</td><td>459</td><td>471</td></tr> <tr> <td rowspan="2">Total</td><td>Midterm</td><td>-</td><td>-</td><td rowspan="2">-</td><td>2,253</td><td>3,377</td><td>5,631</td></tr> <tr> <td>Full year</td><td>-</td><td>-</td><td>6,640</td><td>6,754</td><td>13,395</td></tr> </table>									Total GOP of the hotel(s)	GOP base amount	Variable rent ratio	Variable rent	Fixed rent	Total rent	The Five HMJ Hotels (*1)	Midterm	3,276	1,675	85.0%	1,360	1,610	2,970	Full year	7,985	3,351	3,939	3,221	7,160	Okinawa Marriott Resort & Spa	Midterm	378	350	90.0%	25	274	300	Full year	1,248	700	493	550	1,043	Sheraton Grand Hiroshima Hotel(*2)	Midterm	515	234	82.5%	232	174	406	Full year	1,088	468	512	348	860	Oriental Hotel Fukuoka Hakata Station (*3)	Midterm	131	212	90.0%	-	199	199	Full year	760	425	301	400	701	Holiday Inn Osaka Namba	Midterm	570	325	92.5%	227	288	515	Full year	1,159	650	471	576	1,047	Hilton Tokyo Narita Airport	Midterm	489	275	86.5%	185	222	407	Full year	1,051	550	433	444	877	International Garden Hotel Narita	Midterm	323	180	98.0%	141	168	309	Full year	658	360	292	336	628	Hotel Nikko Nara	Midterm	316	235	91.5%	74	210	284	Full year	670	470	183	420	603	Subtotal	Midterm	6,002	-	-	2,247	3,147	5,394	Full year	14,624	-	6,628	6,295	12,923	ACTIVE-INTER CITY HIROSHIMA (Office and commercial tenants)	Midterm	-	-	-	6	230	236	Full year	-	-	11	459	471	Total	Midterm	-	-	-	2,253	3,377	5,631	Full year	-	-	6,640	6,754	13,395
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Item	Assumptions						
Operating Revenue	2) Income from management contracts (*4) and variable rent by the 21 hotels with variable rent, etc. excluding the Twelve HMJ Hotels						
		Midterm	Full year				
	ibis Tokyo Shinjuku	246	565				
	ibis Styles Kyoto Station	213	436				
	ibis Styles Sapporo	256	651				
	Mercure Sapporo	282	704				
	Mercure Okinawa Naha	170	380				
	Mercure Yokosuka	178	297				
	the b suidobashi	9	26				
	the b ikebukuro	70	153				
	the b hachioji	32	66				
	the b hakata	75	162				
	Total	1,537	3,443				
	(*1) The 21 hotels with variable rent, etc. represent the 21 hotels comprising the Eleven HMJ Hotels plus ibis Tokyo Shinjuku, ibis Styles Kyoto Station, ibis Styles Sapporo, Mercure Sapporo, Mercure Okinawa Naha, Mercure Yokosuka, the b ikebukuro, the b hachioji, the b hakata and the b suidobashi. The Eleven HMJ Hotels are Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, and Oriental Hotel Hiroshima (hereinafter called “the Five HMJ Hotels”), plus Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA), Holiday Inn Osaka Namba, Hilton Tokyo Narita Airport, International Garden Hotel Narita, and Hotel Nikko Nara. With regard to Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata), major renovation works causing the suspension of hotel operation (hereinafter called the “Renovation”) were implemented from October 2018 to April 8, 2019, and figures for Oriental Hotel Fukuoka Hakata Station are not included in the tabulation of the 21 hotels with variable rent, etc. as hotel operation was suspended during the Renovation. Moreover, the 12 hotels comprising the Eleven HMJ Hotels plus Oriental Hotel Fukuoka Hakata Station are hereinafter called the “Twelve HMJ Hotels.” The same shall apply hereinafter.						
	(*2) Stating the rent for Sheraton Grand Hiroshima Hotel, the major facility of ACTIVE-INTER CITY HIROSHIMA.						
	(*3) Due to the impact of the suspension of hotel operation due to the Renovation implemented 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, variable rent for the midterm is not recognized.						
	(*4) For income from management contracts, it is assumed that each hotel’s GOP amount is recognized as income from management contracts and the management contract fees to be paid by JHR are recognized as an operating expense.						
	(2) The Two New HMJ Hotels (Acquired assets) (*1)						
	1) Hotel Oriental Express Osaka Shinsaibashi						
	The assumptions of the fixed rent and variable rent are as follows.						
	Total rent = Fixed rent + Variable rent						
Variable rent = [Total GOP of the hotels – GOP base amount] × Variable rent ratio (%)							
(Unit: millions of yen)							
		Total GOP of the hotel(s)	GOP base amount	Variable rent ratio	Variable rent	Fixed rent	Total rent
Hotel Oriental Express Osaka Shinsaibashi (*2)	Midterm	-	-	91.0%	-	47	47
	Full year	90	64		24	102	126
(*1) The Two New HMJ Hotels (Acquired assets) are Hotel Oriental Express Osaka Shinsaibashi, which was acquired on February 1, 2019, and Hilton Tokyo Odaiba, which was acquired on April 8, 2019. The same shall apply hereinafter.							
(*2) Hotel Oriental Express Osaka Shinsaibashi was acquired on February 1, 2019, and has a lease contract which adopts fixed rent until June 30, 2019, and fixed rent as well as variable rent which is linked to GOP of the hotel from July 1, 2019. GOP of the hotel for the full year is the GOP of the hotel from July 2019 through December 2019. The fixed rent for the full year 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.							

Item	Assumptions							
Operating Revenue	2) Hilton Tokyo Odaiba							
	The assumptions of the fixed rent and variable rent are as follows. As to Hilton Tokyo Odaiba, variable rent is not expected for the fiscal year ending December 2019 (20th period).							
	Total rent = Fixed rent + Variable rent							
	Variable rent = [Total AGOP of the hotels (*3) – AGOP base amount] × Variable rent ratio (%)							
	(Unit: millions of yen)							
			AGOP of the hotel (*4)	AGOP base amount	Variable rent ratio	Variable rent	Fixed rent (*4)	Total rent
	Hilton Tokyo Odaiba	Midterm	528	817	30.0%	-	714	714
		Full year	2,087	2,450		-	2,264	2,264
	(*3) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.							
	(*4) As Hilton Tokyo Odaiba was acquired on April 8, 2019, AGOP of the hotel for the midterm and the full year is the AGOP of the hotel from April through June, 2019 and from April through December 2019, respectively. The fixed rent for the full year is the assumed figures for 268 days from April 8, 2019 through December 31, 2019. AGOP base amount after the fiscal year ending December 2020 is ¥2,970 million, and the annual fixed rent is ¥3,100 million.							
(3) Other hotels subject to variable rent, etc.								
Variable rent from other hotels subject to variable rent, etc. (Unit: millions of yen)								
		Midterm	Full year					
	Comfort Hotel Tokyo Higashi Nihombashi	16	16					
	Smile Hotel Nihombashi Mitsukoshimae	20	20					
	Hotel Vista Kamata Tokyo	—	22					
	Chisun Inn Kamata	41	84					
	Hotel Keihan Universal City	Undisclosed (*)	Undisclosed (*)					
	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	114	114					
	Hilton Tokyo Bay	Undisclosed (*)	Undisclosed (*)					
	Hilton Nagoya	Undisclosed (*)	Undisclosed (*)					
	Total of 8 hotels	815	1,455					
(*) Undisclosed since tenants that concluded lease contracts did not agree to disclose rent revenue, etc.								
• The following is the breakdown of variable rent and income from management contracts (*1)								
<Breakdown of variable rent, etc. for the fiscal year ending December 2019 (20th period)>								
(Unit: millions of yen)								
		Midterm	Full year					
	The Twelve HMJ Hotels (*2)	2,253	6,640					
	The 21 hotels with variable rent, etc. excluding the Twelve HMJ Hotels	1,537	3,443					
	The Two New HMJ Hotels (Acquired assets)	—	24					
	Other hotels with variable rent, etc. (8 hotels)	815	1,455					
	Total (32 hotels)	4,606	11,563					
(*1) For details of contracts for variable rent and income from management contracts, please refer to page 48, “3. Reference Information (1) 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.”								
(*2) This figure includes revenue-linked rent of office and commercial tenants at ACTIVE-INTER CITY HIROSHIMA.								

Item	Assumptions																		
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 ¥1,658 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. • Capital expenditure is assumed to be ¥6,863 million (¥2,348 million for capital expenditure I, ¥913 million for capital expenditure II, ¥454 million for capital expenditure III, and ¥3,147 million for expenditure related to the Renovation at Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata)) for the fiscal year ending December 2019 (20th period). (*) 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 but necessary for operating hotels, and (III) strategic capital investment such as renovating guest rooms, etc. for maintaining / improving the competitiveness of the hotels. • Depreciation is calculated using the straight-line method including the planned capital expenditures above, and is assumed to be ¥4,636 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"> • ¥1,962 million is expected for borrowing-related costs, including interest expense, amortization for financing fee, arrangement fee, etc. 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"> • It is assumed that the balance of interest-bearing debt (sum of loans and investment corporation bonds) is ¥168,371 million as of the end of June, 2019. It is assumed that the balance of interest-bearing debt will be ¥168,771 million as of December 31, 2019. • It is assumed that ¥6,317 million loans, which are due within the fiscal year ending December 2019 (20th period), will be fully refinanced. 																		
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>¥16,451 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>(*) ¥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>(*) 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>	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	¥16,451 million	Total number of investment units issued	4,462,347 units	Dividend per unit	¥3,686
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Total number of investment units issued	4,462,347 units																		
Dividend per unit	¥3,686																		

Item	Assumptions
Dividend per Unit	<p>(*3) Major renovation works causing the suspension of hotel operation were implemented at the former Hotel Centraza Hakata from October 1, 2018, and the hotel opened as Oriental Hotel Fukuoka Hakata Station on April 9, 2019. Taking into consideration the effect on dividend by the suspension of hotel operation due to the Renovation, ¥357 million, which is equivalent to the difference between NOI after depreciation of the former 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).</p> <p>(*4) We plan to avoid the impact of the dilution of investment units on dividend per unit for the fiscal year ending December 2019 caused by not owning The Two New HMJ Hotels (Acquired assets) for the full fiscal year ending December 2019 and by the issuance of new investment units through appropriation of the reserve for temporary difference adjustment (negative goodwill).</p> <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. of 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.
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

Comparison with the operating forecast and forecast of dividend (previous forecast) for the full fiscal year ending December 2019, which was released in the “Financial Report for the Fiscal Year Ended December 31, 2018 (January 1, 2018 – December 31, 2018)” dated February 20, 2019, and the major factors causing the variance.

(Unit: JPY MM)

		FY12/2018 (19th Period)	FY12/2019 (20th Period) (reference)				Comparison with the Previous Forecast		Factors Causing Variance
		Actual	Previous Forecast (A)	Forecast This Time (B)	Forecast This Time (annualized effect) (*1)		(B)-(A)	%	
Properties	No. of Properties	41	43	43	43	-	-	-	
	Acquisition Price	309,370	374,508	374,508	374,508	-	-	-	
Profit and Loss	Operating Revenue	28,253	28,876	28,666	29,527	(210)	(0.7%)		
	Real Estate Operating Revenue	26,318	28,876	28,666	29,527	(210)	(0.7%)		
	Fixed Rent, etc.	Composition 56.2% 14,788	Composition 58.8% 16,989	Composition 59.7% 17,102	Composition 60.8% 17,945	112	0.7%		1. Increase in rent from hotels by JPY100 MM 2. Increase in rent from office and commercial tenants, etc. by JPY12 MM
	Variable Rent	43.8% 11,529	41.2% 11,886	40.3% 11,563	39.2% 11,582	(323)	(2.7%)		1. Decrease in variable rent, etc. from the 21 hotels with variable rent, etc. (*2) by JPY373 MM 2. Increase in variable rent from Oriental Hotel Fukuoka Hakata Station by JPY75 MM 3. Decrease in rent from other hotels with revenue sharing, etc. by JPY24 MM
	Gain on Sale of Real Estate Properties	1,934	-	-	-	-	-		
	NOI (*3)	22,104	24,498	24,298	24,827	(200)	(0.8%)		
	NOI Yield	7.1%	6.5%	6.5%	6.6%	(0.1%)			
	NOI after Depreciation (*3)	17,974	19,584	19,411	19,853	(173)	(0.9%)		
	NOI Yield after Depreciation	5.8%	5.2%	5.2%	5.3%	(0.0%)			
	Operating Income	17,993	17,371	17,227	17,604	(143)	(0.8%)		
	Ordinary Income	16,211	15,274	15,274	15,673	0	0.0%		
	Net Income	16,210	15,273	15,273	15,672	0	0.0%		
Dividend	Reserve for Temporary Difference Adjustments (Negative Goodwill)	563	1,177	1,177	867	-	-		Amount to be reversed from reserve for temporary difference adjustments (*4) 19th Period: 50-year amortization amount of negative goodwill: JPY262 MM Correspondence to loss on retirement of noncurrent assets: JPY35 MM Correspondence to major renovation works: JPY265 MM
	Reserve for Special Advanced Depreciation	(1,174)	-	-	-	-	-		20th Period: 50-year amortization amount of negative goodwill: JPY262 MM Correspondence to loss on retirement of noncurrent assets: JPY247 MM Correspondence to major renovation works: JPY357 MM Correspondence to dilution: JPY310 MM
	Total Dividends	15,602	16,448	16,448	16,537	0	0.0%		
	Number of Units Issued (Unit)	4,010,847	4,462,347	4,462,347	4,462,347	-	-		
	Dividend per Unit (JPY)	3,890	3,686	3,686	3,706	-	-		

(*1) For the assumptions of the annualized effect for the forecast this time, please refer to “<Reference Information 2> Assumptions of the annualized effect (full year effect) for the forecast for the fiscal year ending December 2019 (20th period)” below.

(*2) For the assumptions of the 21 hotels with variable rent, etc., please refer to “<Reference Information 1> Assumptions of the operating forecast for the full year of the fiscal year ending December 2019 (20th period)” below.

(*3) Each is calculated using the following formula. The same shall apply hereinafter.

NOI (Net Operating Income) = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses

NOI yield = NOI ÷ Acquisition price

NOI after depreciation = Real estate operating revenue – Real estate operating costs

NOI yield after depreciation = NOI after depreciation ÷ Acquisition price

(*4) For the details of the reversed amount of the reserve for temporary difference adjustment, please refer to “<Reference Information 1> Assumptions of the operating forecast for the full year of the fiscal year ending December 2019 (20th period)” below.

<Reference Information 2> Assumptions of the annualized effect (full year effect) for the forecast for the fiscal year ending December 2019 (20th period)

- (1) There is no change in operating revenue and operating expenses of the existing properties excluding The Two New HMJ Hotels (Acquired assets) from “<Reference Information 1> Assumptions of the operating forecast for the full fiscal year ending December 2019 (20th period).”
- (2) The fixed rent and variable rent for Hotel 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) (¥153 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	175	128	42

- (3) 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	2,648	2,970	— (*)

(*) The variable rent is not expected.

- (4) The fixed asset tax and city planning tax and other taxes for The Two New HMJ Hotels (Acquired assets) are assumed to be ¥326 million, which is equivalent to twelve months.
- (5) 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.

<1>The 21 hotels with variable rent, etc.

		Fiscal year ended December 2018		Fiscal year ending December 2019			
		Actual	Comparison with the previous period	Previous forecast	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	87.3%	0.3pt	88.0%	86.5%	(0.7pt)	(1.5pt)
	Second half of the year	87.1%	(1.4pt)	89.9%	89.3%	2.2pt	(0.6pt)
	Full year	87.2%	(0.6pt)	89.0%	87.9%	0.7pt	(1.1pt)
ADR (*1)	First half of the year	14,685	2.2%	14,965	14,749	0.4%	(1.4%)
	Second half of the year	17,020	0.4%	17,321	16,904	(0.7%)	(2.4%)
	Full year	15,861	1.1%	16,166	15,852	(0.1%)	(1.9%)
RevPAR (*2)	First half of the year	12,817	2.6%	13,173	12,765	(0.4%)	(3.1%)
	Second half of the year	14,831	(1.2%)	15,579	15,097	1.8%	(3.1%)
	Full year	13,833	0.5%	14,386	13,940	0.8%	(3.1%)
Sales (JPY 1M)	First half of the year	22,958	0.8%	23,684	23,124	0.7%	(2.4%)
	Second half of the year	26,257	(1.2%)	27,331	26,656	1.5%	(2.5%)
	Full year	49,215	(0.3%)	51,015	49,780	1.1%	(2.4%)
GOP (JPY 1M)	First half of the year	7,715	2.6%	7,774	7,709	(0.1%)	(0.8%)
	Second half of the year	10,196	0.3%	10,550	10,189	(0.1%)	(3.4%)
	Full year	17,911	1.3%	18,324	17,898	(0.1%)	(2.3%)

(*1) ADR: Represents average daily rate, which is calculated by dividing revenue for rooms department for a given period (including service charges) by the total number of rooms sold during the period. As for the service charge, Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station request 10%, Hilton Tokyo Narita Airport requests 12% and Hilton Tokyo Odaiba requests 13%. Moreover, other hotels among the 21 hotels with variable rent, etc. do not request service charges. The same shall apply hereinafter.

(*2) RevPAR: Represents revenue per available room, which is calculated by dividing revenue for rooms department for a certain period (including 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.

<2> The Eleven HMJ Hotels

The figures are the total amount of eleven hotels which exclude Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata) from the Twelve HMJ Hotels in order to exclude the impact of the Renovation which caused suspension of sales. The same shall apply hereinafter.

		Fiscal year ended December 2018		Fiscal year ending December 2019			
		Actual	Comparison with the previous period	Previous forecast	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	87.3%	(0.1pt)	88.1%	87.6%	0.3pt	(0.5pt)
	Second half of the year	87.7%	(1.3pt)	90.3%	89.4%	1.7pt	(0.9pt)
	Full year	87.5%	(0.7pt)	89.2%	88.5%	1.0pt	(0.7pt)
ADR	First half of the year	16,674	2.3%	16,923	16,497	(1.1%)	(2.5%)
	Second half of the year	19,771	(0.2%)	20,020	19,498	(1.4%)	(2.6%)
	Full year	18,240	0.9%	18,504	18,025	(1.2%)	(2.6%)
RevPAR	First half of the year	14,552	2.2%	14,906	14,453	(0.7%)	(3.0%)
	Second half of the year	17,338	(1.7%)	18,075	17,425	0.5%	(3.6%)
	Full year	15,957	0.1%	16,504	15,951	(0.0%)	(3.3%)
Sales (JPY 1M)	First half of the year	18,754	0.2%	19,331	18,915	0.9%	(2.2%)
	Second half of the year	21,831	(1.4%)	22,575	21,951	0.5%	(2.8%)
	Full year	40,585	(0.7%)	41,906	40,865	0.7%	(2.5%)
GOP (JPY 1M)	First half of the year	5,809	2.2%	5,865	5,871	1.1%	0.1%
	Second half of the year	8,141	1.2%	8,337	7,992	(1.8%)	(4.1%)
	Full year	13,950	1.7%	14,202	13,864	(0.6%)	(2.4%)

<3> Hotel Oriental Express Osaka Shinsaibashi

		Fiscal year ended December 2018		Fiscal year ending December 2019			
		Actual	Comparison with the previous period	Previous forecast	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	—	—	90.0%	92.3%	—	2.3pt
	Second half of the year	—	—	90.0%	91.5%	—	1.5pt
	Full year	—	—	90.0%	91.9%	—	1.9pt
ADR	First half of the year	—	—	10,500	9,611	—	(8.5%)
	Second half of the year	—	—	10,500	10,429	—	(0.7%)
	Full year	—	—	10,500	10,021	—	(4.6%)
RevPAR	First half of the year	—	—	9,449	8,868	—	(6.1%)
	Second half of the year	—	—	9,449	9,544	—	1.0%
	Full year	—	—	9,449	9,209	—	(2.5%)
Sales (JPY 1M)	First half of the year	—	—	224	205	—	(8.4%)
	Second half of the year	—	—	226	226	—	0.1%
	Full year	—	—	450	431	—	(4.1%)

GOP (JPY 1M)	First half of the year	—	—	102	84	—	(17.0%)
	Second half of the year	—	—	102	91	—	(11.0%)
	Full year	—	—	204	175	—	(14.0%)

(*) As Hotel Oriental Express Osaka Shinsaibashi opened on April 2, 2018, figures before the fiscal year December ended 2018 are not shown.

<4> Hilton Tokyo Odaiba

		Fiscal year ended December 2018		Fiscal year ending December 2019			
		Actual	Comparison with the previous period	Previous forecast	Forecast this time (first half: actual)	Comparison with the previous period	Comparison with the previous forecast
Occupancy Rate	First half of the year	95.2%	0.9pt	95.2%	85.9%	(9.3pt)	(9.3pt)
	Second half of the year	92.9%	(3.0pt)	94.1%	91.3%	(1.6pt)	(2.8pt)
	Full year	94.0%	(1.1pt)	94.7%	88.6%	(5.4pt)	(6.0pt)
ADR	First half of the year	28,831	6.8%	28,831	29,263	1.5%	1.5%
	Second half of the year	31,396	8.6%	32,001	32,447	3.3%	1.4%
	Full year	30,108	7.6%	30,420	30,917	2.7%	1.6%
RevPAR	First half of the year	27,451	7.7%	27,451	25,135	(8.4%)	(8.4%)
	Second half of the year	29,154	5.3%	30,115	29,622	1.6%	(1.6%)
	Full year	28,309	6.4%	28,794	27,397	(3.2%)	(4.9%)
Sales (JPY 1M)	First half of the year	4,591	9.5%	4,591	4,258	(7.3%)	(7.3%)
	Second half of the year	5,008	7.3%	5,081	4,744	(5.3%)	(6.6%)
	Full year	9,599	8.3%	9,672	9,001	(6.2%)	(6.9%)
GOP (JPY 1M)	First half of the year	1,374	21.7%	1,374	1,144	(16.7%)	(16.7%)
	Second half of the year	1,723	15.2%	1,720	1,624	(5.7%)	(5.6%)
	Full year	3,097	18.0%	3,094	2,768	(10.6%)	(10.5%)

(*) Hilton Tokyo Odaiba was acquired on April 8, 2019. The figures for the fiscal year ended December 2018 and the fiscal year ending December 2019 are calculated as the total for full year including figures prior to the acquisition date.

2. Semi-annual financial statements

(1) Semi-annual balance sheets

(thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	25,706,559	13,751,181
Cash and deposits in trust	11,478,156	11,060,584
Operating accounts receivable	2,474,121	1,795,082
Prepaid expenses	527,491	502,587
Income taxes receivable	34	-
Consumption taxes receivable	-	679,677
Derivative assets	2,229	3,609
Other current assets	77,987	62,460
Total current assets	40,266,582	27,855,181
Noncurrent assets		
Property and equipment, at cost		
Machinery and equipment	398,134	463,270
Accumulated depreciation	(150,113)	(170,700)
Machinery and equipment, net	248,021	292,569
Tools, furniture and fixtures	3,121,628	3,692,359
Accumulated depreciation	(1,505,450)	(1,754,936)
Tools, furniture and fixtures, net	1,616,178	1,937,423
Construction in progress	-	2,005
Buildings in trust	*1 122,605,307	*1 135,423,580
Accumulated depreciation	(18,178,952)	(19,831,856)
Buildings in trust, net	104,426,355	115,591,724
Structures in trust	2,535,539	2,707,518
Accumulated depreciation	(367,369)	(401,511)
Structures in trust, net	2,168,169	2,306,006
Machinery and equipment in trust	598,790	609,975
Accumulated depreciation	(125,229)	(139,639)
Machinery and equipment in trust, net	473,561	470,336
Tools, furniture and fixtures in trust	136,526	136,526
Accumulated depreciation	(95,925)	(100,232)
Tools, furniture and fixtures in trust, net	40,601	36,293
Land in trust	163,151,369	219,893,624
Construction in progress in trust	765,363	12,393
Net property and equipment	272,889,620	340,542,377
Intangible assets		
Software	199,563	205,002
Leasehold rights in trust	28,532,362	28,532,362
Fixed-term leasehold rights in trust	5,175,217	5,106,079
Other intangible assets	8,436	8,096
Total intangible assets	33,915,580	33,851,540
Investments and other assets		
Security deposits	12,520	12,520
Leasehold and security deposits in trust	150,223	150,223
Long-term prepaid expenses	2,687,996	2,885,627
Derivative assets	45,125	-
Reserve for repairs and maintenance	292,508	309,844
Total investments and other assets	3,188,374	3,358,215
Total noncurrent assets	309,993,574	377,752,134
Deferred assets		
Investment unit issuance costs	124,220	197,096
Investment corporation bond issuance costs	172,390	214,164
Total deferred assets	296,610	411,261
Total assets	350,556,767	406,018,577

(thousands of yen)

	As of December 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Operating accounts payable	1,941,008	1,572,700
Short-term loans payable	-	900,000
Current portion of investment corporation bonds	2,000,000	-
Current portion of long-term loans payable	11,117,000	13,709,000
Accrued expenses	530,377	605,853
Income taxes payable	1,210	605
Consumption taxes payable	496,921	-
Advances received	882,052	895,128
Dividends payable	18,275	22,160
Deposits received	7,315	27,283
Derivative liabilities	17,608	5,999
Other current liabilities	9,013	347,383
Total current liabilities	17,020,784	18,086,114
Long-term liabilities		
Investment corporation bonds	31,600,000	39,600,000
Long-term loans payable	91,954,000	114,162,000
Tenant leasehold and security deposits	1,041,016	1,040,520
Tenant leasehold and security deposits in trust	4,593,946	4,677,460
Derivative liabilities	514,339	983,491
Deferred tax liabilities	14,838	1,140
Asset retirement obligations	445,622	446,650
Total long-term liabilities	130,163,763	160,911,262
Total liabilities	147,184,548	178,997,377
Net assets		
Unitholders' equity		
Unitholders' capital	153,516,129	186,894,169
Surplus		
Capital surplus	21,746,398	21,746,398
Voluntary reserve		
Reserve for temporary difference adjustment	*2 12,357,644	*2 11,794,071
Reserve for special account for tax purpose reduction entry	-	1,174,860
Total voluntary reserve	12,357,644	12,968,932
Unappropriated retained earnings (undisposed loss)	16,213,482	6,353,516
Total surplus	50,317,525	41,068,847
Total unitholders' equity	203,833,655	227,963,016
Valuation and translation adjustments		
Deferred gains (losses) on hedges	(461,435)	(941,817)
Total valuation and translation adjustments	(461,435)	(941,817)
Total net assets	*3 203,372,219	*3 227,021,199
Total liabilities and net assets	350,556,767	406,018,577

(2) Semi-annual statements of income

(thousands of yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Operating revenue		
Real estate operating revenue	*1 11,749,691	*1 12,143,382
Other real estate operating revenue	*1 571,413	*1 576,264
Total operating revenue	12,321,105	12,719,646
Operating expenses		
Real estate operating costs	*1 4,071,061	*1 4,425,425
Asset management fee	762,553	840,598
Asset custody and administrative service fee	57,657	58,704
Directors' compensation	6,500	6,900
Other operating expenses	103,955	94,934
Total operating expenses	5,001,728	5,426,561
Operating income	7,319,377	7,293,084
Non-operating income		
Interest income	119	192
Gain on forfeiture of unclaimed dividends	3,583	4,361
Gain on insurance claims	2,106	3,014
Refunded fixed asset tax	10,354	-
Interest on tax refunds	118	-
Gain on derivative instruments	11,875	2,100
Total non-operating income	28,158	9,668
Non-operating expenses		
Interest expense	419,253	444,771
Interest expense on investment corporation bonds	116,618	126,567
Borrowing costs	299,397	253,560
Amortization of investment corporation bond issuance costs	13,323	13,634
Amortization of investment unit issuance costs	76,470	95,457
Loss on derivative instruments	31,490	9,309
Other	3,214	5,329
Total non-operating expenses	959,768	948,632
Ordinary income	6,387,767	6,354,121
Income before income taxes	6,387,767	6,354,121
Income taxes – current	605	605
Total income taxes	605	605
Net income	6,387,162	6,353,516
Retained earnings brought forward	3,048	-
Unappropriated retained earnings (undisposed loss)	6,390,211	6,353,516

(3) Semi-annual statements of changes in net assets

For the six months ended June 30, 2018

(thousands of yen)

(thousands of yen)

	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 period:							
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					6,387,162	6,387,162	6,387,162
Net changes of items other than unitholders' equity							
Total changes of items during the period	-	-	(769,508)	(769,508)	(7,615,278)	(8,384,787)	(8,384,787)
Balance, June 30, 2018	^{*1} 153,516,129	21,746,398	12,357,644	12,357,644	6,390,211	40,494,253	194,010,383

(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 period:			
Reversal of reserve for temporary difference adjustment			-
Dividends paid			(14,771,949)
Net income			6,387,162
Net changes of items other than unitholders' equity	152,978	152,978	152,978
Total changes of items during the period	152,978	152,978	(8,231,808)
Balance, June 30, 2018	(278,870)	(278,870)	193,731,512

For the six months ended June 30, 2019

(thousands of yen)

	Unitholders' equity							
	Unitholders' capital	Surplus						Total unitholders' equity
		Capital surplus	Voluntary reserve			Unappropriated retained earnings (undisposed loss)	Total surplus	
			Reserve for temporary difference adjustment	Reserve for special account for tax purpose reduction entry	Total voluntary reserve			
Balance, January 1, 2019	153,516,129	21,746,398	12,357,644	-	12,357,644	16,213,482	50,317,525	203,833,655
Changes of items during the period:								
Issuance of new investment units	33,378,040							33,378,040
Reversal of reserve for temporary difference adjustment			(563,572)		(563,572)	563,572	-	-
Provision of reserve for special account for tax purpose reduction entry				1,174,860	1,174,860	(1,174,860)	-	-
Dividends paid						(15,602,194)	(15,602,194)	(15,602,194)
Net income						6,353,516	6,353,516	6,353,516
Net changes of items other than unitholders' equity								
Total changes of items during the period	33,378,040	-	(563,572)	1,174,860	611,287	(9,859,966)	(9,248,678)	24,129,361
Balance, June 30, 2019	^{*1} 186,894,169	21,746,398	11,794,071	1,174,860	12,968,932	6,353,516	41,068,847	227,963,016

	Valuation and translation adjustments		Total net assets
	Deferred gains (losses) on hedges	Total valuation and translation adjustments	
Balance, January 1, 2019	(461,435)	(461,435)	203,372,219
Changes of items during the period:			
Issuance of new investment units			33,378,040
Reversal of reserve for temporary difference adjustment			-
Provision of reserve for special account for tax purpose reduction entry			-
Dividends paid			(15,602,194)
Net income			6,353,516
Net changes of items other than unitholders' equity	(480,381)	(480,381)	(480,381)
Total changes of items during the period	(480,381)	(480,381)	23,648,980
Balance, June 30, 2019	(941,817)	(941,817)	227,021,199

(4) Semi-annual statements of cash flows

(thousands of yen)

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash flows from operating activities		
Income before income taxes	6,387,767	6,354,121
Depreciation and amortization	2,031,821	2,165,386
Loss on retirement of noncurrent assets	11,701	218,928
Loss (gain) on derivative instruments	19,614	7,208
Amortization of investment corporation bond issuance costs	13,323	13,634
Amortization of investment unit issuance costs	76,470	95,457
Interest income	(119)	(192)
Interest expense	535,872	571,339
Interest on tax refunds	(118)	-
(Increase) decrease in operating accounts receivable	668,954	679,039
(Increase) decrease in consumption taxes receivable	-	(679,677)
(Increase) decrease in prepaid expenses	90,394	24,904
(Increase) decrease in long-term prepaid expenses	228,413	(197,630)
Increase (decrease) in operating accounts payable	(109,333)	(276,727)
Increase (decrease) in accrued expenses	(137,356)	73,134
Increase (decrease) in consumption taxes payable	(176,827)	(496,921)
Increase (decrease) in advances received	5,409	13,075
Increase (decrease) in deposits received	(13,934)	19,967
Other – net	(5,704)	353,058
Subtotal	9,626,348	8,938,109
Interest received	150	298
Interest paid	(522,374)	(568,998)
Interest received on tax refunds	118	-
Income taxes – refunded (paid)	(1,177)	(1,175)
Net cash provided by operating activities	9,103,065	8,368,233
Cash flows from investing activities		
Purchase of property and equipment	(255,151)	(856,198)
Purchase of property and equipment in trust	(1,080,305)	(69,160,596)
Purchase of intangible assets	(60,514)	(48,292)
Payments of reserve for repairs and maintenance	(21,491)	(20,214)
Reimbursements of tenant leasehold and security deposits	-	(496)
Proceeds from tenant leasehold and security deposits in trust	52,373	285,709
Reimbursements of tenant leasehold and security deposits in trust	(70,836)	(201,445)
Net cash used in investing activities	(1,435,927)	(70,001,534)
Cash flows from financing activities		
Proceeds from short-term loans payable	5,000,000	8,000,000
Repayments of short-term loans payable	(3,000,000)	(7,100,000)
Proceeds from long-term loans payable	5,050,000	29,800,000
Repayments of long-term loans payable	(16,389,000)	(5,000,000)
Proceeds from investment corporation bonds	10,000,000	8,000,000
Redemption of investment corporation bonds	-	(2,000,000)
Payments for investment corporation bond issuance costs	(68,082)	(55,408)
Proceeds from issuance of investment units	-	33,209,706
Dividends paid	(14,757,541)	(15,593,948)
Net cash provided by financing activities	(14,164,623)	49,260,349
Net increase (decrease) in cash and cash equivalents	(6,497,484)	(12,372,950)
Cash and cash equivalents at beginning of period	27,920,350	37,184,716
Cash and cash equivalents at end of period	*1 21,422,866	*1 24,811,765

(5) Notes on going concern assumption

Not applicable.

(6) 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 64 years</td></tr><tr><td>Structures in trust</td><td>2 to 64 years</td></tr><tr><td>Machinery and equipment in trust</td><td>3 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 is 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 64 years	Structures in trust	2 to 64 years	Machinery and equipment in trust	3 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 64 years														
Structures in trust	2 to 64 years														
Machinery and equipment in trust	3 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, etc. under management such as property taxes, city planning taxes, and depreciable asset taxes, the imposed amounts are allocated to the midterm period and expensed as “Real estate operating costs.”</p> <p>Cash paid for property taxes and city planning taxes, etc. to the transferor of real properties, etc. 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 none for the previous midterm period and ¥241,920 thousand for the midterm period under review.</p>														

4. Method of hedge accounting	<p>(1) Method of hedge accounting Deferred hedge accounting is applied</p> <p>(2) Hedging instruments and hedged items Hedging instruments Interest rate swaps Hedged items Interest rates on loans payable</p> <p>(3) Hedging policy 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 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>
5. Scope of funds (cash and cash equivalents) in the semi-annual statements of cash flows	Cash and cash equivalents in the semi-annual 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 semi-annual financial statements	<p>(1) Accounting treatment of beneficial interests in trust with real estate, etc. as their assets 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 semi-annual balance sheet and income statement accounts accordingly. The following material items of the trust accounts recorded in the relevant accounts are presented separately on the semi-annual 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 Consumption taxes are excluded from the transaction amounts.</p>

(7) Note on change in the indication method

By applying “Partial Amendments to ‘Accounting Standard for Tax Effect Accounting’” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the fiscal year under review, the indication method has been changed to indicate deferred tax assets under investments and other assets and deferred tax liabilities under long-term liabilities.

As a result, deferred tax liabilities (¥583 thousand) indicated under current liabilities in the previous fiscal year is included in deferred tax liabilities (¥14,838 thousand) under long-term liabilities.

(8) Notes to semi-annual financial statements

Disclosure of notes on “securities” and “share of (profit) loss of entities accounted for using equity method” is omitted because there is thought to be no longer necessary for disclosure in the midterm financial report.

[Notes to semi-annual balance sheets]

*1. Accumulated advanced depreciation of property and equipment deducted from acquisition costs due to government subsidies received, etc.

	As of December 31, 2018	As of June 30, 2019
Buildings in trust	¥24,921 thousand	¥24,921 thousand

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

As of June 30, 2019

(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	12,357,644	—	563,572	11,794,071	Allocation for dividend

(Note) Reserve for temporary difference adjustment 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, 2018	As of June 30, 2019
	¥50,000 thousand	¥50,000 thousand

[Notes to semi-annual statements of income]

*1. Components of real estate operating revenue and real estate operating costs

	(thousands of yen)	
	For the six months ended June 30, 2018	For the six months ended June 30, 2019
A. Real estate operating revenue		
Real estate operating revenue		
Fixed rent	6,858,614	7,537,244
Variable rent	3,636,962	3,436,291
Income from management contracts	1,254,114	1,169,847
Total	11,749,691	12,143,382
Other real estate operating revenue		
Parking lots	81,659	80,036
Other incidental revenue	31,676	33,454
Utilities	387,112	396,928
Other	70,964	65,844
Total	571,413	576,264
Total real estate operating revenue	12,321,105	12,719,646
B. Real estate operating costs		
Real estate operating costs		
Land lease and other rent expenses	455,425	450,856
Property taxes	802,682	827,699
Outsourcing expenses (Note)	303,715	285,627
Nonlife insurance	23,846	24,589
Depreciation and amortization	2,031,821	2,165,386
Loss on retirement of noncurrent assets	11,701	218,928
Repairs	23,654	13,838
Utilities	391,397	406,847
Trust fees	21,836	21,863
Other	4,981	9,787
Total real estate operating costs	4,071,061	4,425,425
C. Net real estate operating income (A – B)	8,250,043	8,294,221

(Note) Outsourcing expenses include management contract fees of ¥116,346 thousand for the six months ended June 30, 2018 and ¥107,495 thousand for the six months ended June 30, 2019.

[Notes to semi-annual statements of changes in net assets]

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
*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	4,462,347 units

[Notes to semi-annual statements of cash flows]

*1. Relation of balance of cash and cash equivalents at end of period and the amount in semi-annual balance sheet accounts

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Cash and deposits	¥11,011,580 thousand	¥13,751,181 thousand
Cash and deposits in trust	¥10,411,285 thousand	¥11,060,584 thousand
Cash and cash equivalents	¥21,422,866 thousand	¥24,811,765 thousand

[Notes on lease transactions]

Operating leases (as lessor)

Minimum rental revenue under non-cancellable operating leases

	As of December 31, 2018	As of June 30, 2019
Due within one year	¥1,666,631 thousand	¥1,592,912 thousand
Due after one year	¥3,562,086 thousand	¥2,801,851 thousand
Total	¥5,228,717 thousand	¥4,394,764 thousand

[Notes on financial instruments]

Matters concerning fair value of financial instruments

Carrying amounts of financial instruments on the (semi-annual) balance sheets, their fair values, and the differences were as follows. Financial instruments whose fair values are considered extremely difficult to measure are not included in the table.
See Note 2 below.

As of December 31, 2018

	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)	—

As of June 30, 2019

	Carrying amount (JPY 1,000)	Fair value (JPY 1,000)	Difference (JPY 1,000)
(1) Cash and deposits	13,751,181	13,751,181	—
(2) Cash and deposits in trust	11,060,584	11,060,584	—
(3) Operating accounts receivable	1,795,082	1,795,082	—
Total assets	26,606,848	26,606,848	—
(4) Short-term loans payable	900,000	900,000	—
(5) Current portion of investment corporation bonds payable	—	—	—
(6) Current portion of long-term loans payable	13,709,000	13,709,000	—
(7) Investment corporation bonds	39,600,000	39,892,390	292,390
(8) Long-term loans payable	114,162,000	114,162,000	—
Total liabilities	168,371,000	168,663,390	292,390
(9) Derivative transactions (*)	(985,882)	(985,882)	—

(*) 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.

(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, 2018	As of June 30, 2019
Tenant leasehold and security deposits	1,041,016	1,040,520
Tenant leasehold and security deposits in trust	4,593,946	4,677,460
Total	5,634,962	5,717,980

Tenant leasehold and security deposits / Tenant leasehold and security deposits in trust

Tenant leasehold and security deposits (in trust) 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.

[Notes on derivative transactions]

1. Derivative transactions to which hedge accounting is not applied

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.

As of June 30, 2019

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)	5,288,000	3,494,000	(45,205)	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, 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.

As of June 30, 2019

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 the midterm 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	112,054,000	102,354,000	(940,676)	The fair value is measured at the quoted price, etc. obtained from the counterparty financial institutions.

[Notes on asset retirement obligations]

Asset retirement obligations recognized on the (semi-annual) balance sheets

1. Outline of the subject asset retirement obligations

JHR recognizes asset retirement obligations as it is obliged to restore the land of Oriental Hotel Fukuoka Hakata Station, 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, 2018	For the six months ended June 30, 2019
Balance at beginning of period	443,577	445,622
Increase due to acquisition of property and equipment	—	—
Adjustment due to passage of time	2,045	1,027
Balance at end of period	445,622	446,650

[Notes on rental properties, etc.]

JHR owns rental properties for hotels to earn lease income and income from management contracts. 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, 2018	For the six months ended June 30, 2019
Hotel	Carrying amount		
	Balance at beginning of period	317,229,208	306,789,379
	Net increase (decrease) during period	(10,439,828)	67,589,376
	Balance at end of period	306,789,379	374,378,756
	Fair value at end of period	437,510,000	522,960,000

(Note 1) 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. Increase during the six months ended June 30, 2019, principally represents the acquisition of Hotel Oriental Express Osaka Shinsaibashi for ¥2,841 million and Hilton Tokyo Odaiba for ¥63,461 million.

(Note 2) Fair value at June 30, 2019 is the appraisal value determined by licensed real estate appraisers from outside.

[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 six months ended June 30, 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 semi-annual 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 semi-annual 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 semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note)	5,602,905	Investment and management of hotel real estate
AAPC Japan K.K.	1,498,974	Investment and management of hotel real estate

(Note) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

For the six months ended June 30, 2019

(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 semi-annual 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 semi-annual 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 semi-annual balance sheets.

(3) Information about major customers

(thousands of yen)

Name of customer	Operating revenue	Name of related segment
Hotel Management Japan Co., Ltd. (Note)	6,253,233	Investment and management of hotel real estate
AAPC Japan K.K.	1,438,063	Investment and management of hotel real estate

(Note) Operating revenue includes the operating revenue of customers belonging to the same company group as said customers.

[Notes on per unit information]

Net assets per unit is as follows:

	As of December 31, 2018	As of June 30, 2019
Net assets per unit	¥50,705	¥50,874

Net income per unit and the basis of computation of net income per unit are as follows:

	For the six months ended June 30, 2018	For the six months ended June 30, 2019
Net income per unit	¥1,592	¥1,441
[Basis of computation]		
Net income for midterm (JPY 1,000)	6,387,162	6,353,516
Amount not attributable to common unitholders (JPY 1,000)	—	—
Net income for midterm attributable to common investment units (JPY 1,000)	6,387,162	6,353,516
Average number of investment units during period (units)	4,010,847	4,406,896

(Note) Net income per unit for midterm is computed by dividing net income for midterm by the average number of investment units during the midterm period.

Net income per unit for midterm after the adjustment of potentially dilutive units is not presented since there are no potentially dilutive units.

[Notes on significant subsequent events]

Not applicable.

(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 midterm period 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)
January 23, 2019	Capital increase through public offering of investment units	447,800	4,458,647	33,104	186,620	(Note 12)
February 20, 2019	Capital increase through third-party allotment of investment units	3,700	4,462,347	273	186,894	(Note 13)

- (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 other repayment of 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 other repayment of 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 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 the 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 acquisition of new properties, etc.
- (Note 9) New investment units were issued through third-party allotment with an issue value per unit of ¥78,956 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or 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 acquisition of new properties, etc.
- (Note 11) New investment units were issued through third-party allotment with an issue value per unit of ¥75,065 in order to procure funds for allocation to part of future acquisitions of specified assets, part of repayment of loans, or capital expenditures to maintain or improve competitiveness of existing properties.
- (Note 12) New investment units were issued through public offering with an issue price per unit of ¥76,342 (issue value of ¥73,927) in order to procure funds for the acquisition of new properties, etc.
- (Note 13) New investment units were issued through third-party allotment with an issue value per unit of ¥73,927 in order to procure funds for the acquisition of new properties, etc..

3. Reference information

For the detail information of the each properties and operating result of hotels, please see 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) Information on values of assets under management, etc.

A. Investment status

The following outlines the investment status of JHR as of the end of the midterm period under review.

Asset category	Hotel type (Note 1)	Prefectural location	Name	As of December 31, 2018		As of June 30, 2019	
				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	Osaka	Holiday Inn Osaka Namba	27,033	7.7	26,995	6.6
			Namba Oriental Hotel	14,552	4.2	14,509	3.6
			Hotel Oriental Express Osaka Shinsaibashi	—	—	2,823	0.7
		Tokyo	ibis Tokyo Shinjuku	7,940	2.3	7,905	1.9
			CANDEO HOTELS UENO-KOEN	6,681	1.9	6,663	1.6
			the b ikebukuro	6,584	1.9	6,573	1.6
			Sotetsu Fresa Inn Shimbashi-Karasumoriguchi (Note 4)	4,821	1.4	4,811	1.2
			Comfort Hotel Tokyo Higashi Nihombashi	3,557	1.0	3,541	0.9
			the b hachioji	2,686	0.8	2,673	0.7
			Smile Hotel Nihombashi Mitsukoshimae	2,030	0.6	2,025	0.5
			R&B Hotel Ueno Hirokoji	1,766	0.5	1,812	0.4
			Hotel Vista Kamata Tokyo	1,465	0.4	1,464	0.4
			the b suidobashi	1,198	0.3	1,188	0.3
			dormy inn· global cabin Asakusa (Note 5)	952	0.3	946	0.2
			Chisun Inn Kamata	779	0.2	774	0.2
		Hokkaido	ibis Styles Sapporo	6,620	1.9	6,593	1.6
			Mercure Sapporo	5,853	1.7	5,818	1.4
		Fukuoka	HOTEL ASCENT FUKUOKA	5,178	1.5	5,171	1.3
			the b hakata	2,340	0.7	2,332	0.6
			Hakata Nakasu Washington Hotel Plaza	2,033	0.6	2,034	0.5
			Toyoko Inn Hakata-guchi Ekimae	1,437	0.4	1,428	0.4
		Kyoto	ibis Styles Kyoto Station	6,665	1.9	6,661	1.6
		Okinawa	Mercure Okinawa Naha	2,860	0.8	2,845	0.7
		Kumamoto	Dormy Inn Kumamoto	2,165	0.6	2,145	0.5
		Nara	Nara Washington Hotel Plaza	1,802	0.5	1,797	0.4
		Subtotal			119,010	33.9	121,536
	Full-service hotel	Tokyo	Hilton Tokyo Odaiba	-	-	63,391	15.6
			Oriental Hotel tokyo bay	17,790	5.1	17,633	4.3
			Hilton Tokyo Narita Airport	13,253	3.8	13,209	3.3
			International Garden Hotel Narita	9,195	2.6	9,148	2.3
			Hotel Francs	3,187	0.9	3,168	0.8
		Hiroshima	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel) (Note 6)	17,487	5.0	17,402	4.3
			Oriental Hotel Hiroshima	4,106	1.2	4,091	1.0
		Aichi	Hilton Nagoya	15,605	4.5	15,565	3.8
		Nara	Hotel Nikko Nara	10,442	3.0	10,396	2.6
		Fukuoka	Oriental Hotel Fukuoka Hakata Station (Note 7)	7,178	2.0	9,726	2.4
		Hyogo	Kobe Meriken Park Oriental Hotel	9,772	2.8	9,676	2.4
		Kanagawa	Mercure Yokosuka	1,642	0.5	1,628	0.4
		Subtotal			109,661	31.3	175,038
	Resort hotel	Okinawa	Hotel Nikko Alivila	17,989	5.1	17,901	4.4
			Okinawa Marriott Resort & Spa	14,875	4.2	14,767	3.6
			The Beach Tower Okinawa	6,677	1.9	6,617	1.6
		Chiba	Hilton Tokyo Bay	26,098	7.4	26,445	6.5
		Osaka	Hotel Keihan Universal City	5,930	1.7	5,925	1.5
		Kanagawa	Hakone Setsugetsuka	3,722	1.1	3,702	0.9
	Subtotal			75,295	21.5	75,361	18.6
Real estate in trust – Total			303,967	86.7	371,936	91.6	
Deposits and other assets (Note 8)			46,589	13.3	34,082	8.4	
Total assets			350,556	100.0	406,018	100.0	

	Amount (JPY1M)	Ratio to total assets (%)	Amount (JPY1M)	Ratio to total assets (%)
Total liabilities	147,184	42.0	178,997	44.1
Total net assets	203,372	58.0	227,021	55.9

(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) Hotel Sunroute Shinbashi was renamed as Sotetsu Fresa Inn Shimbashi-Karasumoriguchi on April 23, 2019. In this report, the same shall apply hereinafter.
- (Note 5) Dormy Inn EXPRESS Asakusa was renamed as dormy inn· global cabin Asakusa on August 4, 2019. In this report, the same shall apply hereinafter.
- (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 was renamed as Oriental Hotel Fukuoka Hakata Station on April 9, 2019. In this report, the same shall apply hereinafter.
- (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).

B. 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 midterm period 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	9,871	16,200	N	2.9	Unsecured
2	Oriental Hotel tokyo bay	Mid-price	19,900	17,839	34,900	N	5.3	Unsecured
3	Namba Oriental Hotel	Mid-price	15,000	14,628	32,900	N	4.0	Unsecured
4	Hotel Nikko Alivila	Luxury	18,900	18,167	32,900	N	5.0	Unsecured
5	Oriental Hotel Hiroshima	Upper-middle	4,100	4,164	4,370	N	1.1	Unsecured
6	ibis Tokyo Shinjuku	Mid-price	7,243	8,011	10,200	N	1.9	Unsecured
8	The Beach Tower Okinawa	Mid-price	7,610	6,622	10,000	N	2.0	Unsecured
9	Hakone Setsugetsuka	Mid-price	4,070	3,710	5,300	N	1.1	Unsecured
10	Dormy Inn Kumamoto	Mid-price	2,334	2,145	3,060	J	0.6	Unsecured
12	the b suidobashi	Mid-price	1,120	1,209	1,940	N	0.3	Unsecured
13	dormy inn+ global cabin Asakusa	Economy	999	946	1,330	J	0.3	Unsecured
14	Hakata Nakasu Washington Hotel Plaza	Mid-price	2,130	2,034	4,520	N	0.6	Unsecured
15	Nara Washington Hotel Plaza	Mid-price	2,050	1,799	2,440	N	0.5	Unsecured
16	R&B Hotel Ueno Hirokoji	Economy	1,720	1,812	2,010	J	0.5	Unsecured
18	Comfort Hotel Tokyo Higashi Nihombashi	Economy	3,746	3,541	5,830	J	1.0	Unsecured
22	Smile Hotel Nihombashi Mitsukoshimae	Economy	2,108	2,025	3,160	J	0.6	Unsecured
24	Toyoko Inn Hakata-guchi Ekimae	Economy	1,652	1,428	2,780	T	0.4	Unsecured
25	Hotel Vista Kamata Tokyo	Economy	1,512	1,465	2,040	T	0.4	Unsecured
26	Chisun Inn Kamata	Economy	823	777	1,450	T	0.2	Unsecured
29	Hotel Keihan Universal City	Mid-price	6,000	5,926	13,900	R	1.6	Unsecured
30	Sotetsu Fresa Inn Shimabashi-Karasumoriguchi	Mid-price	4,800	4,813	8,970	D	1.3	Unsecured
31	Hilton Tokyo Bay	Luxury	26,050	26,460	40,400	D	7.0	Unsecured
32	ibis Styles Kyoto Station	Mid-price	6,600	6,678	11,600	D	1.8	Unsecured
33	ibis Styles Sapporo	Mid-price	6,797	6,636	11,200	N	1.8	Unsecured
34	Mercure Sapporo	Mid-price	6,000	5,888	11,000	N	1.6	Unsecured
35	Mercure Okinawa Naha	Mid-price	3,000	2,875	7,760	N	0.8	Unsecured
37	the b ikebukuro	Mid-price	6,520	6,594	7,350	N	1.7	Unsecured
39	the b hachioji	Mid-price	2,610	2,683	2,790	N	0.7	Unsecured
40	the b hakata	Mid-price	2,300	2,344	4,710	N	0.6	Unsecured
41	Hotel Francs	Mid-price	3,105	3,168	4,090	D	0.8	Unsecured
42	Mercure Yokosuka	Mid-price	1,650	1,663	3,000	D	0.4	Unsecured
43	Okinawa Marriott Resort & Spa	Upper-middle	14,950	14,924	18,700	N	4.0	Unsecured
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Luxury	17,320	17,495	21,700	D	4.6	Unsecured
45	CANDEO HOTELS UENO-KOEN	Mid-price	6,705	6,671	7,630	D	1.8	Unsecured
46	Oriental Hotel Fukuoka Hakata Station (Note 8)	Upper-middle	7,197	10,055	14,000	D	1.9	Unsecured
47	Holiday Inn Osaka Namba	Mid-price	27,000	27,134	27,200	N	7.2	Unsecured
48	HOTEL ASCENT FUKUOKA	Economy	4,925	5,171	6,630	D	1.3	Unsecured
49	Hilton Nagoya	Luxury	15,250	15,565	16,000	D	4.1	Unsecured
50	Hilton Tokyo Narita Airport	Upper-middle	13,175	13,412	13,700	N	3.5	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)
51	International Garden Hotel Narita	Mid-price	9,125	9,210	9,650	N	2.4	Unsecured
52	Hotel Nikko Nara	Upper-middle	10,373	10,461	11,200	D	2.8	Unsecured
53	Hotel Oriental Express Osaka Shinsaibashi	Mid-price	2,738	2,835	3,050	D	0.7	Unsecured
54	Hilton Tokyo Odaiba	Upper-middle	62,400	63,505	69,400	N	16.7	Unsecured
	Total		374,508	374,378	522,960		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.
- (Note 3) “Carrying amount at end of period” is the book value at the end of the midterm period under review, and includes not only the amounts for real estate in trust, but also for machinery and equipment, tools, furniture and fixtures, construction in progress, 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 midterm period 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 midterm period under review to the total amount of acquisition price of all assets held at the end of the midterm period 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 grade for Oriental Hotel Fukuoka Hakata Station was changed from “Mid-price” to “Upper-middle” following the reopening after renovation in April 2019.
- (Note 9) The omitted property numbers are the property numbers of assets that have been transferred.

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

The following is the change in total number of tenants, total leasable area, total leased area and occupancy rate, etc. 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	End of midterm period of 20th period June 2019
Total number of tenants (Note 1)	57	113	128	131	126	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	746,329.68 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	745,389.57 m ²
Occupancy rate (Note 4)	99.9%	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 or midterm 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). The same shall apply hereinafter.
- (Note 3) In principle, total 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. with 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 or midterm period. The same shall apply hereinafter.

c. Details of assets under management (information on major real estate)

Major real estate of which total annual rent accounts for 10% or more of the total annual rent (Note 1) of the entire portfolio is as follows.

Property name	Total number of tenants	Total annual rent	Total leased area	Total leasable area	Change in occupancy rate for the past five years (Note 2)	
Hilton Tokyo Odaiba	1	Fixed rent ¥3,100 million Variable rent - (Note 1)	64,907.76 m ²	64,907.76 m ²	December 2014	100.0%
					December 2015	100.0%
					December 2016	100.0%
					December 2017	100.0%
					December 2018	100.0%
					June 2019	100.0%

(Note 1) “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 midterm period under review is multiplied by 12, plus (ii) assumed amounts of revenue sharing, variable rent or income from management contracts for full year. The assumed full-year amounts of variable rent of the two properties acquired during the fiscal year ending December 2019 (Hotel Oriental Express Osaka Shinsaibashi and Hilton Tokyo Odaiba) are rationally calculated assuming that they were held throughout the fiscal year, and variable rent for Hilton Tokyo Odaiba is not expected for the fiscal year ending December 2019 (20th period).

(Note 2) Occupancy rates prior to December 2018 are figures provided by the seller.

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	504,988	379,913	216,016
2	Oriental Hotel tokyo bay	Variable/Fixed	916,509	857,463	641,508
3	Namba Oriental Hotel	Variable/Fixed	742,215	690,136	610,772
4	Hotel Nikko Alivila	Variable/Fixed	589,764	515,796	359,058
5	Oriental Hotel Hiroshima	Variable/Fixed	218,792	196,652	153,415
6	ibis Tokyo Shinjuku	Management contract	329,048	232,130	176,362
8	The Beach Tower Okinawa	Fixed	255,524	234,229	168,256
9	Hakone Setsugetsuka	Fixed	147,482	135,741	89,552
10	Dormy Inn Kumamoto	Fixed	97,230	86,729	65,394
12	the b suidobashi	Variable/Fixed	52,361	45,628	31,880
13	dormy inn· global cabin Asakusa	Fixed	31,997	27,618	20,875
14	Hakata Nakasu Washington Hotel Plaza (Note 4)	Fixed	120,000	112,000	99,000
15	Nara Washington Hotel Plaza (Note 4)	Fixed	75,000	66,000	49,000
16	R&B Hotel Ueno Hirokoji	Fixed	48,646	41,506	33,357
18	Comfort Hotel Tokyo Higashi Nihombashi	Variable/Fixed (Note 5)	152,351	136,978	118,862
22	Smile Hotel Nihombashi Mitsukoshimae	Variable/Fixed (Note 5)	87,423	79,682	69,483
24	Toyoko Inn Hakata-guchi Ekimae	Fixed	70,519	63,887	54,777
25	Hotel Vista Kamata Tokyo	Variable/Fixed (Note 5)	46,867	39,710	27,272
26	Chisun Inn Kamata	Variable	41,541	38,060	32,443
29	Hotel Keihan Universal City	Variable/Fixed (Note 5)	457,124	419,574	376,957
30	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	Variable/Fixed (Note 5)	279,734	248,202	237,326
31	Hilton Tokyo Bay	Variable/Fixed (Note 5)	989,059	846,589	763,274
32	ibis Styles Kyoto Station	Management contract	236,489	213,830	195,785
33	ibis Styles Sapporo	Management contract	289,026	225,463	184,453
34	Mercure Sapporo	Management contract	370,423	265,809	220,680
35	Mercure Okinawa Naha	Management contract	172,205	135,954	107,235
37	the b ikebukuro	Variable/Fixed	182,222	169,494	152,843
39	the b hachioji	Variable/Fixed	94,685	82,643	67,413
40	the b hakata	Variable/Fixed	120,631	114,519	103,841
41	Hotel Francs	Fixed	150,000	117,913	96,709
42	Mercure Yokosuka	Variable	200,934	145,652	126,507
43	Okinawa Marriott Resort & Spa	Variable/Fixed	300,619	258,432	121,724
44	ACTIVE-INTER CITY HIROSHIMA (Sheraton Grand Hiroshima Hotel)	Variable/Fixed	780,667	561,725	460,672
45	CANDEO HOTELS UENO-KOEN	Fixed	174,989	161,831	141,877
46	Oriental Hotel Fukuoka Hakata Station (Note 6)	Variable/Fixed	199,999	77,322	(268,084)
47	Holiday Inn Osaka Namba	Variable/Fixed	515,258	491,559	413,899
48	HOTEL ASCENT FUKUOKA	Fixed	216,587	145,991	127,579
49	Hilton Nagoya	Variable	695,425	342,754	266,440
50	Hilton Tokyo Narita Airport	Variable/Fixed	407,814	365,072	270,507
51	International Garden Hotel Narita	Variable/Fixed	309,065	286,897	219,216
52	Hotel Nikko Nara	Variable/Fixed	284,853	260,930	193,209
53	Hotel Oriental Express Osaka Shinsaibashi (Note 7)	Variable/Fixed	47,735	46,324	40,982
54	Hilton Tokyo Odaiba (Note 8)	Variable/Fixed	714,630	713,404	654,448
	Total		12,719,646	10,679,564	8,294,221

(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) NOI = Real estate operating revenue – Real estate operating costs + Depreciation + Loss on retirement of noncurrent assets + Asset retirement obligations expenses

(Note 3) NOI after depreciation (net real estate operating income) = Real estate operating revenue – 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 numbers are thus rounded down to the nearest million yen.

- (Note 5) For Comfort Hotel Tokyo Higashi Nihombashi, Smile Hotel Nihombashi Mitsukoshimae, Hotel Vista Kamata Tokyo, Hotel Keihan Universal City, Sotetsu Fresa Inn Shimbashi-Karasumoriguchi and Hilton Tokyo Bay, the rent structure is one that has set not only fixed rent, but also partly has rent based on a revenue sharing structure.
- (Note 6) Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata) underwent major renovation work suspending its hotel operation from October 1, 2018 through the reopening on April 9, 2019.
- (Note 7) Hotel Oriental Express Osaka Shinsaibashi was acquired on February 1, 2019.
- (Note 8) Hilton Tokyo Odaiba was acquired on April 8, 2019.
- (Note 9) The property numbers of assets that were transferred 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 midterm period under review (from January 1, 2019 to June 30, 2019). 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	-	181	181	181	181	181
(A) Real estate operating revenue subtotal	12,719,646	504,988	916,509	742,215	589,764	218,792
Fixed rent	7,537,244	322,950	315,799	398,950	402,049	170,752
Variable rent	4,606,138	180,745	600,709	343,265	187,714	48,040
Other revenue	576,264	1,293	-	-	-	-
(B) Real estate operating costs subtotal	4,425,425	288,971	275,000	131,442	230,705	65,376
Land lease and other rent expenses	450,856	96,349	-	-	42,074	-
Property taxes	827,699	26,096	56,457	50,370	28,669	20,623
Outsourcing expenses	285,627	480	480	480	960	480
Nonlife insurance	24,589	1,606	1,601	721	1,247	530
Depreciation and amortization	2,165,386	162,410	204,304	79,345	153,717	43,160
Loss on retirement of noncurrent assets	218,928	1,485	11,650	18	3,021	77
Other costs	452,336	543	506	506	1,015	505
(C) Net real estate operating income = (A) – (B)	8,294,221	216,016	641,508	610,772	359,058	153,415
(Reference) Occupancy rate	99.9%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	126	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· global cabin Asakusa
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	329,048	255,524	147,482	97,230	52,361	31,997
Fixed rent	51,889	255,504	147,169	97,230	42,499	31,697
Variable rent	246,476	-	-	-	9,861	-
Other revenue	30,682	20	312	-	-	300
(B) Real estate operating costs subtotal	152,685	87,267	57,929	31,835	20,481	11,121
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	17,818	19,721	11,013	9,575	4,080	3,044
Outsourcing expenses	46,995	-	-	-	600	600
Nonlife insurance	289	553	322	213	92	54
Depreciation and amortization	55,767	65,973	46,188	21,335	13,748	6,743
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	31,814	1,020	405	710	1,960	680
(C) Net real estate operating income = (A) – (B)	176,362	168,256	89,552	65,394	31,880	20,875
(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	18	22	24
Property name	Hakata Nakasu Washington Hotel Plaza (Note 2)	Nara Washington Hotel Plaza (Note 2)	R&B Hotel Ueno Hirokoji	Comfort Hotel Tokyo Higashi Nihombashi	Smile Hotel Nihombashi Mitsukoshimae	Toyoko Inn Hakata-guchi Ekimae
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	120,000	75,000	48,646	152,351	87,423	70,519
Fixed rent	120,000	73,000	48,252	129,860	67,200	70,519
Variable rent	-	-	-	16,887	20,223	-
Other revenue	0	2,000	394	5,602	-	-
(B) Real estate operating costs subtotal	20,000	25,000	15,289	33,488	17,939	15,741
Land lease and other rent expenses	-	-	-	-	-	-
Property taxes	6,000	5,000	6,116	13,405	6,429	5,349
Outsourcing expenses	0	1,000	420	807	600	540
Nonlife insurance	0	0	84	209	93	119
Depreciation and amortization	13,000	17,000	8,149	18,115	10,198	9,109
Loss on retirement of noncurrent assets	0	-	-	-	-	-
Other costs	0	0	518	950	617	622
(C) Net real estate operating income = (A) – (B)	99,000	49,000	33,357	118,862	69,483	54,777
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	2	1	2	1	1

Property No.	25	26	29	30	31	32
Property name	Hotel Vista Kamata Tokyo	Chisun Inn Kamata	Hotel Keihan Universal City	Sotetsu Fresa Inn Shimbashi- Karasumoriguchi	Hilton Tokyo Bay	ibis Styles Kyoto Station (Note 1)
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	46,867	41,541	457,124	279,734	989,059	236,489
Fixed rent	46,767	-	Undisclosed (Note 3)	149,002	Undisclosed (Note 3)	21,167
Variable rent	-	41,541	Undisclosed (Note 3)	114,412	Undisclosed (Note 3)	213,522
Other revenue	100	-	Undisclosed (Note 3)	16,319	Undisclosed (Note 3)	1,800
(B) Real estate operating costs subtotal	19,594	9,097	80,166	42,408	225,784	40,704
Land lease and other rent expenses	-	-	10,555	-	65,417	-
Property taxes	5,928	2,374	22,570	12,920	68,707	9,784
Outsourcing expenses	600	540	2,626	2,355	5,400	12,248
Nonlife insurance	107	47	645	173	1,565	202
Depreciation and amortization	12,438	5,616	42,616	10,876	83,314	18,045
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	519	519	1,152	16,083	1,379	423
(C) Net real estate operating income = (A) – (B)	27,272	32,443	376,957	237,326	763,274	195,785
(Reference) Occupancy rate	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	4	1	2

Property No.	33	34	35	37	39	40
Property name	ibis Styles Sapporo (Note 1)	Mercure Sapporo (Note 1)	Mercure Okinawa Naha (Note 1)	the b ikebukuro	the b hachioji	the b hakata
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	289,026	370,423	172,205	182,222	94,685	120,631
Fixed rent	10,645	33,025	-	110,719	58,913	44,761
Variable rent	256,916	282,417	170,717	70,434	32,464	75,870
Other revenue	21,463	54,980	1,488	1,068	3,308	-
(B) Real estate operating costs subtotal	104,572	149,742	64,969	29,378	27,272	16,790
Land lease and other rent expenses	-	-	156	-	-	-
Property taxes	18,433	24,567	11,549	10,655	10,664	4,796
Outsourcing expenses	23,886	33,064	22,473	600	600	600
Nonlife insurance	410	491	318	198	215	126
Depreciation and amortization	41,009	45,128	28,718	16,651	15,229	10,677
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	20,832	46,491	1,752	1,273	562	589
(C) Net real estate operating income = (A) - (B)	184,453	220,680	107,235	152,843	67,413	103,841
(Reference) Occupancy rate	98.3%	98.1%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	4	14	1	4	11	2

Property No.	41	42	43	44	45	46
Property name	Hotel Francs	Mercure Yokosuka	Okinawa Marriott Resort & Spa	ACTIVE-INTER CITY HIROSHIMA	CANDEO HOTELS UENO-KOEN	Oriental Hotel Fukuoka Hakata Station (Note 4)
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	150,000	200,934	300,619	780,667	174,989	199,999
Fixed rent	150,000	-	274,999	404,120	Undisclosed (Note 3)	199,999
Variable rent	-	178,658	25,619	238,515	-	-
Other revenue	-	22,276	-	138,031	Undisclosed (Note 3)	-
(B) Real estate operating costs subtotal	53,290	74,426	178,895	319,994	33,112	468,084
Land lease and other rent expenses	-	-	-	-	-	111,103
Property taxes	29,279	17,611	39,303	59,003	11,518	9,095
Outsourcing expenses	900	10,116	1,200	46,810	600	1,500
Nonlife insurance	455	851	1,153	1,661	235	553
Depreciation and amortization	21,204	19,144	136,708	101,052	19,954	142,028
Loss on retirement of noncurrent assets	-	-	-	-	-	202,575
Other costs	1,450	26,703	530	111,466	804	1,228
(C) Net real estate operating income = (A) - (B)	96,709	126,507	121,724	460,672	141,877	(268,084)
(Reference) Occupancy rate	100.0%	100.0%	100.0%	99.6%	100.0%	100.0%
(Reference) Number of tenants	1	1	1	38	1	1

Property No.	47	48	49	50	51	52
Property name	Holiday Inn Osaka Namba	HOTEL ASCENT FUKUOKA	Hilton Nagoya	Hilton Tokyo Narita Airport	International Garden Hotel Narita	Hotel Nikko Nara
Number of operating days	181	181	181	181	181	181
(A) Real estate operating revenue subtotal	515,258	216,587	695,425	407,814	309,065	284,853
Fixed rent	288,000	160,364	Undisclosed (Note 3)	222,000	168,000	210,000
Variable rent	227,258	-	Undisclosed (Note 3)	185,814	141,065	74,853
Other revenue	-	56,222	Undisclosed (Note 3)	-	-	-
(B) Real estate operating costs subtotal	101,358	89,008	428,984	137,307	89,849	91,643
Land lease and other rent expenses	-	13,999	111,200	-	-	-
Property taxes	21,947	15,791	51,164	39,357	19,749	20,282
Outsourcing expenses	780	6,588	51,505	1,260	1,140	1,380
Nonlife insurance	550	239	1,617	1,543	700	1,382
Depreciation and amortization	77,660	18,189	76,313	94,564	67,681	67,720
Loss on retirement of noncurrent assets	-	-	-	-	-	-
Other costs	420	34,201	137,183	581	578	877
(C) Net real estate operating income = (A) – (B)	413,899	127,579	266,440	270,507	219,216	193,209
(Reference) Occupancy rate	100.0%	96.8%	100.0%	100.0%	100.0%	100.0%
(Reference) Number of tenants	1	5	4	1	1	1

Property No.	53	54
Property name	Hotel Oriental Express Osaka Shinsaibashi (Note 5)	Hilton Tokyo Odaiba (Note 6)
Number of operating days	150	84
(A) Real estate operating revenue subtotal	47,735	714,630
Fixed rent	47,500	714,630
Variable rent	-	-
Other revenue	235	-
(B) Real estate operating costs subtotal	6,752	60,181
Land lease and other rent expenses	-	-
Property taxes	-	-
Outsourcing expenses	900	27
Nonlife insurance	79	1,004
Depreciation and amortization	5,341	58,956
Loss on retirement of noncurrent assets	-	-
Other costs	432	193
(C) Net real estate operating income = (A) – (B)	40,982	654,448
(Reference) Occupancy rate	100.0%	100.0%
(Reference) Number of tenants	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 48.
- (Note 2) Consent on disclosure of rent in units of thousand yen has not been obtained from the lessee and numbers are thus rounded down to the nearest million yen.
- (Note 3) 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 4) Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata) underwent major renovation work suspending its hotel operation from October 1, 2018 through the reopening on April 9, 2019.
- (Note 5) Hotel Oriental Express Osaka Shinsaibashi was acquired on February 1, 2019.
- (Note 6) Hilton Tokyo Odaiba was acquired on April 8, 2019.
- (Note 7) The property numbers of assets that were transferred 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	Oriental Hotel Fukuoka Hakata Station	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%
	53	Hotel Oriental Express Osaka Shinsaibashi	Variable/Fixed	FY2019: When hotel GOP for July 2019 to December 2019 exceeds GOP base amount (set at ¥64 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 91.0% FY2020 and after: When hotel GOP exceeds GOP base amount (set at ¥128 million / year), the amount arrived at when the amount exceeding GOP base amount is multiplied by 91.0%
	54	Hilton Tokyo Odaiba	Variable/Fixed	FY2019: When hotel AGOP (Note 3) exceeds AGOP base amount (set at ¥2,450 million / year), the amount arrived at when the amount exceeding AGOP base amount is multiplied by 30.0% FY2020 and FY2021: When hotel AGOP exceeds AGOP base amount (set at ¥2,970 million / year), the amount arrived at when the amount exceeding AGOP base amount is multiplied by 30.0% FY2022 and after: When hotel AGOP exceeds AGOP base amount (set at ¥1,660 million / year), the amount arrived at when the amount exceeding AGOP base amount is multiplied by 98.0%
The Accor Group	6	ibis Tokyo Shinjuku	Management contract (Note 4)	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 (Note 5)
The Ishin Group	12	the b suidobashi	Variable/Fixed	Amount linked to GOP (Note 5)
	37	the b ikebukuro		
	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)
	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 total sales of the hotel 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	Sotetsu Fresa Inn Shimbashi-Karasumoriguchi	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 figures are for Sheraton Grand Hiroshima Hotel, the main facility of ACTIVE-INTER CITY HIROSHIMA.

(Note 3) AGOP (adjusted GOP) is the amount calculated by subtracting certain fees and other items from GOP. The same shall apply hereinafter.

(Note 4) 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 achieved 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 5) The detailed content of the contract is not disclosed as consent on disclosure has not been obtained from the lessee, etc..

b. Major indicators of the hotel business

The following tables indicate the figures related to the hotel business of the HMJ Group Hotels for the operating period from January 1, 2019 through June 30, 2019, 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 (%)	Ratio to total sales (%)	Ratio to total sales (%)				
Occupancy rate	82.6%	—	98.0%	—	95.8%	—	84.1%	—	87.3%	—	90.1%	—
ADR (Note 1)	18,425	—	20,536	—	19,707	—	24,761	—	9,837	—	19,583	—
RevPAR (Note 2)	15,213	—	20,118	—	18,880	—	20,817	—	8,583	—	17,650	—
Total sales	2,566	100.0	3,360	100.0	1,344	100.0	2,604	100.0	1,012	100.0	10,886	100.0
Rooms department	878	34.2	1,861	55.4	882	65.6	1,496	57.4	353	34.8	5,469	50.2
Food & beverage department	1,560	60.8	1,162	34.6	65	4.8	871	33.4	628	62.1	4,286	39.4
Tenant department	38	1.5	110	3.3	380	28.3	1	0.0	11	1.1	540	5.0
Other departments (Note 3)	89	3.5	228	6.8	18	1.3	237	9.1	20	2.0	591	5.4
GOP	513	20.0	1,053	31.3	820	61.0	719	27.6	172	16.9	3,276	30.1

	Okinawa Marriott Resort & Spa		Sheraton Grand Hiroshima Hotel (Note 4)		Oriental Hotel Fukuoka Hakata Station (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	82.1%	—	89.4%	—	39.1%	—	93.3%	—	87.9%	—	84.5%	—
ADR (Note 1)	17,768	—	20,280	—	19,385	—	17,116	—	12,216	—	8,465	—
RevPAR (Note 2)	14,589	—	18,125	—	7,588	—	15,965	—	10,743	—	7,152	—
Total sales	1,618	100.0	1,630	100.0	673	100.0	931	100.0	1,668	100.0	783	100.0
Rooms department	953	58.9	781	47.9	304	45.1	907	97.5	1,066	63.9	599	76.5
Food & beverage department	466	28.8	798	49.0	251	37.3	—	—	551	33.0	178	22.8
Tenant department	27	1.6	—	—	112	16.7	18	2.0	28	1.7	3	0.4
Other departments (Note 3)	172	10.6	51	3.1	6	0.9	5	0.6	23	1.4	3	0.3
GOP	378	23.4	516	31.6	131	19.5	571	61.3	490	29.4	324	41.4

	Hotel Nikko Nara		Hotel Oriental Express Osaka Shinsaibashi		Hilton Tokyo Odaiba		The HMJ Group Hotels Total/Average (Note 6)	
		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)		Ratio to total sales (%)
Occupancy rate	77.7%	—	92.3%	—	85.9%	—	85.3%	—
ADR (Note 1)	12,915	—	9,611	—	29,263	—	17,587	—
RevPAR (Note 2)	10,040	—	8,868	—	25,135	—	15,005	—
Total sales	1,399	100.0	205	100.0	4,258	100.0	24,050	100.0
Rooms department	600	42.9	199	97.2	2,061	48.4	12,939	53.8
Food & beverage department	778	55.6	6	2.7	2,043	48.0	9,357	38.9
Tenant department	15	1.1	—	—	97	2.3	840	3.5
Other departments (Note 3)	7	0.5	0	0.1	57	1.3	914	3.8
GOP	317	22.6	84	41.2	1,144	26.9	7,231	30.1

(Note 1) ADR: Represents average daily rate, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms sold during the period.

Service charges are 10% for Kobe Meriken Park Oriental Hotel, Oriental Hotel Tokyo Bay, Namba Oriental Hotel, Hotel Nikko Alivila, Oriental Hotel Hiroshima, Okinawa Marriott Resort & Spa, Sheraton Grand Hiroshima Hotel (ACTIVE-INTER CITY HIROSHIMA), International Garden Hotel Narita, Hotel Nikko Nara and Oriental Hotel Fukuoka Hakata Station; 12% for Hilton Tokyo Narita Airport; and 13% for Hilton Tokyo Odaiba. Holiday Inn Osaka Namba and Hotel Oriental Express Osaka Shinsaibashi do not request service charges. The same shall apply hereinafter.

(Note 2) RevPAR: Represents revenue per available room, which is calculated by dividing total rooms revenue for a certain period (including service charges) by the total number of rooms available for sale during the period. Revenue per available room equals 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) Oriental Hotel Fukuoka Hakata Station (formerly Hotel Centraza Hakata) underwent major renovation work suspending its hotel operation from October 1, 2018 through the reopening on April 9, 2019. The occupancy rate is calculated including the suspension period.

(Note 6) For Total/Average of the HMJ Group Hotels, 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.

(2) Status of capital expenditures

a. Planned capital expenditures (Note)

The following table shows major estimated capital expenditures items for renovation work during the fiscal year planned as of the end of the midterm period under review. Capital expenditures are expected to total ¥2,440 million for the second half and, in aggregate with the capital expenditures for the first half, capital expenditures are expected to total ¥6,863 million for the full year.

Name of property, etc. (Location)	Purpose	Scheduled period	Estimated construction costs (JPY 1M)		
			Total amount	Payment for the first half	Total amount paid
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Renewal of disaster prevention switchboard	From September 2019 to November 2019	33	—	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Replacement of air-conditioning facilities for guestrooms	From September 2019 to December 2019	66	—	—
Okinawa Marriott Resort & Spa (Nago-shi, Okinawa)	Renovation of restaurants	From May 2019 to July 2019	295	4	4
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From July 2019 to November 2019	25	—	—
Total			420	4	4

(Note) New construction and renewal work include those 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 the renovation work will be performed may change.

b. Capital expenditures during the period (Note)

Major construction work conducted by JHR during the midterm period under review that represents capital expenditures is as below. Capital expenditures for the midterm period under review totaled ¥4,423 million, and repair expenses that were accounted for as expense in the period totaled ¥13 million. In aggregate, ¥4,437 million of construction work was carried out.

Name of property, etc. (Location)	Purpose	Period	Construction costs (JPY 1M)
R&B Hotel Ueno Hirokoji (Taito-ku, Tokyo)	Renewal of air conditioning units	From January 2019 to January 2019	53
Hilton Tokyo Bay (Urayasu-shi, Chiba)	Land preparation for parking lot	From December 2018 to May 2019	419
Oriental Hotel Fukuoka Hakata Station (Fukuoka-shi, Fukuoka)	Major renovation works for entire property	From October 2018 to April 2019	3,147
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
Hilton Nagoya (Nagoya-shi, Aichi)	Renewal of water supply piping	From August 2018 to March 2019	16
Total			3,708

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