JAPAN HOTEL REIT

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Notice Concerning Revision of Operating Forecast and Forecast of Dividend for the Fiscal Period December 2014 (15th Fiscal Period)

Japan Hotel REIT Investment Corporation (hereinafter called "JHR") informs you of the revision of the operating forecast and forecast of dividend for the fiscal period ending December 2014 (January 1, 2014 through December 31, 2014) announced on the "Financial Report for the Fiscal Period ended December 31, 2013" dated February 20, 2014 as follows:

1. Revision of the operating forecast and forecast of dividend for the fiscal period ending December 2014 (January 1, 2014 through December 31, 2014)

	Operating income	Operating profit	Ordinary income	Current net profit	Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
Previous forecast (A)	JPY 1M 11,964	JPY 1M 6,684	JPY 1M 5,074	JPY 1M 5,072	JPY 1,940	JPY 0
Revised forecast (B)	JPY 1M 12,667	JPY 1M 7,260	JPY 1M 5,496	JPY 1M 5,494	JPY 2,058	JPY 0
Variance (C)= (B)－(A)	JPY 1M 703	JPY 1M 576	JPY 1M 421	JPY 1M 421	JPY 118	JPY 0
Variance ratio (D)= (C)/(A)	% 5.9	% 8.6	% 8.3	% 8.3	% 6.1	% 0

2. Operational results for the midterm of the fiscal period ending December 2014 (January 1, 2014 through June 30, 2014)

	Operating income	Operating profit	Ordinary income	Current net profit	Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
Previous forecast (A)	JPY 1M 5,275	JPY 1M 2,709	JPY 1M 1,860	JPY 1M 1,858	JPY —	JPY —
Revised forecast (B)	JPY 1M 5,504	JPY 1M 3,011	JPY 1M 2,235	JPY 1M 2,234	JPY —	JPY —
Variance (C)= (B)－(A)	JPY 1M 228	JPY 1M 302	JPY 1M 375	JPY 1M 376	JPY —	JPY —
Variance ratio (D)= (C)/(A)	% 4.3	% 11.2	% 20.2	% 20.3	% —	% —

(Reference) Forecast of net profit per unit for the full fiscal year: JPY 2,054 (Calculated using the forecasted average number of investment units, 2,674,377 units, during the fiscal period)

(*1) The number of the investment unit already issued as of today is 2,621,281 units. Additional issuance of new units (170,000 units) is assumed according to the resolution of the offering at the Board of Directors Meeting held today.

(*2) Dividend allowance, JPY251M, is planned to be the source of dividend payments.

(*3) See "<Reference 2.> Dividend per unit" as to how to calculate dividend per unit.

(*4) The acquisition of three properties (hereinafter "acquisition of three properties") in the second term of fiscal period ending December 31, 2014 is assumed as announced in the press releases "Notice Concerning Completion of Acquisition and (Planned) Change of Hotel Operator, Etc. of Asset ("Best Western Hotel Sapporo Nakajima Koen" dated July 9, 2014 and "Notice Concerning Acquisition of New assets ("Mercure Hotel Sapporo" and "Mercure Hotel Okinawa Naha") separately announced today. For operating forecast with full year impact of the three properties acquired (scheduled to be acquired) during the current fiscal year, see below "<Reference 3> Growth history of JHR and the annualized effect of asset acquisition."

(*5) Amount less than JPY1M is rounded down, and the second decimal place of variance ratio is rounded off.

3. Rationale for revising the operating forecast and forecast of dividend

The major causes of variance in comparison with the previously announced operating forecast and forecast of dividend for fiscal period ending December 2014 and for the midterm of the fiscal period ending December 2014 are as follows:

(1) Fiscal period ending December 2014 (January 1, 2014 through December 31, 2014)

a) Increase in variable rents, etc. of existing properties

The operating income is expected to rise JPY273M compared with the previous forecast as a result of JPY192M increase of variable rent due to the increase in GOP(*2) of HMJ's five hotels(*1) and JPY81M increase in income from the management contract, etc. due mainly to sales increase in the lodging sector supported by strong leisure demand both domestic and abroad.

Please refer to "<Reference 1> Sales and GOP of HMJ's five hotels" below for hotel sales and hotel GOP of HMJ's five hotels.

b) Operating expenses, financial expenses, etc. associated with existing properties

Operating expenses, financial expenses, etc. are expected to be approximately at the same level as the previous forecast.

JPY74M of finance-related expenses (one-time amortization of borrowing handling expenses, etc.) in association with early repayment is expected, reserve for dividend from negative goodwill will be allocated for the amount since said expense is a non-cash item.

c) Impact of three property acquisitions

In fiscal period ending December 2014, although increase of JPY429M in operating income, JPY259M in operating profit and JPY166M in current net profit due to three property acquisitions, reserve for dividend from negative goodwill is planned to be allocated since dilution of investment units due to issuance of new investment units is expected. See below "<Reference 2 > Dividend per unit" for the calculation method for dividend per unit.

For the operating forecast with full year impact of said three property acquisitions, see below "<Reference 3> Growth history of JHR and the annualized effect of asset acquisition." For detailed statement of income for the fiscal period ending December 2014 and the annualized effect, see below "<Reference 5> Statement of income for fiscal period ending December 2014 (full year forecast).

(Note 1) HMJ's five hotels are namely Kobe Meriken Park Oriental Hotel, Oriental Hotel tokyo bay, Namba Oriental Hotel, Hotel Nikko Alivila, and Oriental Hotel Hiroshima.

(Note 2) GOP (Gross Operating Profit) is a representative management index for hotel operational abilities. Total departmental profits of hotel business (e.g., room sales, food and beverage sales, sales of goods and others) – Non allocated operating expenses (Administrative expenses such as labor cost or utilities cost that are not included in operating expenses of each department)

(2) Midterm of the fiscal period ending December 2014 (January 1, 2014 through June 30, 2014)

a) Increase in variable rents, etc.

The operating income increased JPY228M compared with the previous forecast as a result of JPY179M increase of variable rent due to the increase in GOP of HMJ's five hotels and JPY49M increase in income from the management contract, etc. due mainly to sales increase in the lodging sector supported by strong leisure demand both domestic and abroad.

b) Decrease in operating expenses, financial expenses, etc.

Operating expenses decreased JPY73M and non-operating expenses decreased JPY71M due to reduction of operating expenses compared with the previous forecast, carrying forward of operating expenses and expenses related to borrowings to the second half of fiscal year, etc.

(Note)

The above is the operating forecast as of today, and actual dividend per unit may fluctuate. This forecast does not guarantee the amount of dividend shown above.

*Website of Japan Hotel REIT Investment Corporation: http://www.jhrth.co.jp/

<Reference 1> Sales and GOP of HMJ's five hotels

(1) Hotel sales (by ho0tel)

Sales of HMJ five hotels with variable rent		CY 2012 (Note 1)		CY 2013		CY 2014			
		Actual	Comparison with last period	Actual	Comparison with last period	Previous forecast	Revised forecast 1st half: Actual 2nd half: Forecast	Comparison with previous forecast	Comparison with last period
Kobe Meriken Park Oriental Hotel	1st half of the year	2,544	-0.1%	2,416	-5.0%	2,457	2,424	-1.3%	0.4%
	2nd half of the year	2,922	-2.9%	2,795	-4.3%	2,949	2,930	-0.6%	4.9%
	Full year	5,466	-1.6%	5,210	-4.7%	5,406	5,355	-0.9%	2.8%
Oriental Hotel tokyo bay	1st half of the year	3,221	45.1%	3,209	-0.4%	3,227	3,366	4.3%	4.9%
	2nd half of the year	3,542	0.4%	3,973	12.2%	3,711	3,823	3.0%	-3.8%
	Full year	6,762	17.6%	7,182	6.2%	6,938	7,190	3.6%	0.1%
Namba Oriental Hotel	1st half of the year	885	-5.9%	934	5.5%	957	998	4.3%	6.8%
	2nd half of the year	973	0.5%	1,038	6.6%	1,033	1,083	4.8%	4.3%
	Full year	1,858	-2.6%	1,972	6.1%	1,990	2,081	4.6%	5.5%
Hotel Nikko Alivila	1st half of the year	2,041	6.8%	2,193	7.5%	2,125	2,190	3.0%	-0.1%
	2nd half of the year	3,048	-3.6%	3,183	4.4%	3,365	3,341	-0.7%	5.0%
	Full year	5,088	0.3%	5,375	5.6%	5,491	5,531	0.7%	2.9%
Oriental Hotel Hiroshima	1st half of the year	989	9.3%	1,046	5.8%	1,063	1,046	-1.7%	-0.0%
	2nd half of the year	1,148	11.0%	1,208	5.2%	1,165	1,195	2.6%	-1.1%
	Full year	2,137	10.2%	2,254	5.5%	2,229	2,241	0.5%	-0.6%
Total	1st half of the year	9,679	13.6%	9,797	1.2%	9,830	10,024	2.0%	2.3%
	2nd half of the year	11,633	-0.6%	12,197	4.8%	12,223	12,374	1.2%	1.4%
	Full year	21,312	5.4%	21,994	3.2%	22,053	22,397	1.6%	1.8%

(*1) The settlement period for the fiscal period ended December 2012 is nine months but full year numbers (one year from January 1 through December 31) are shown above for comparing hotel business results.
(*2) Less than JPY1M is rounded off for sales. The second decimal place is rounded off for comparison with the previous period.

(2) Hotel GOP

GOP of HMJ five hotels with variable rent	CY 2012 (Note 1)		CY 2013		CY 2014			
	Actual	Comparison with last period	Actual	Comparison with last period	Previous forecast	Revised forecast	Comparison with previous forecast	Comparison with last period
HMJ's five hotels in total	5,645	9.4%	6,155	9.0%	6,003	6,239	3.9%	1.4%
GOP ratio to sales	26.5%	1.0%	28.0%	1.5%	27.2%	27.9%	0.6%	-0.1%

(*1) The settlement period for the fiscal period ended December 2012 is nine months but full year numbers (one year from January 1 through December 31) are shown above for comparing hotel business results.
(*2) Less than JPY1M is rounded off for GOP. The second decimal place is rounded off for GOP ratio to sales and comparison with the previous period.

<Reference 2> Dividend per unit

Dividend per unit has been calculated as follows:

(JPY1M)	Previous forecast	Revised forecast
Current net profit	5,072	5,494
Profit carried forward from the previous period	-	1
Utilization of negative goodwill (Loss on retirement of noncurrent assets)	13	13
Utilization of negative goodwill (Financial expense associated with early repayment)	-	74
Utilization of negative goodwill (Preventing dilution)	-	164
Total amount of dividend	5,085	5,746
Total number of investment units issued	2,621,281units	2,791,281 units
Dividend per unit	JPY1,940	JPY2,058

・Loss on retirement of noncurrent asset and redeeming handling charges for borrowings associated with refinancing due to early repayment in September 2014 and redemption expenses, etc. for derivative products (Interest-cap) will be covered by dividend allowance from negative goodwill so as not to affect dividend per unit.

・Although dilution of investment units due to issuance of new investment units is expected, allocation of reserve for dividend from negative goodwill is planned to avoid the impact of said dilution on dividend per unit for fiscal period ending December 2014.

・Dividend per unit may fluctuate by various factors such as transfer of operating asset, change of hotel lessee, or fluctuation of the rent income resulting from changing lessee's business environment or unexpected repair, etc.

<Reference 3> Growth history of JHR and the annualized effect of asset acquisition

		Effective date of merger (Note 1)	End of FY12/2012	End of FY12/2013	Previously forecasted	After acquiring (scheduled) assets
No. of properties		**28**	**28**	**28**	**27**	**30**
Acquisition price (scheduled acquisition inclusive) (Note 2)	JPY1M	**122,285**	**130,883**	**158,902**	**157,632**	**173,429**
Appraisal value (Note 3)	JPY1M	**117,706**	**131,227**	**166,237**	**165,537**	**188,123**
NOI yield (Note 4)	%	**5.9**	**6.2**	**6.2**	**6.5**	**6.6**
NOI yield after depreciation (Note 5)	%	**3.9**	**4.5**	**4.8**	**5.0**	**5.2**
LTV (Acquisition price) (Note 6)	%	**49.4**	**49.8**	**47.1**	**46.9**	**46.9**
Appraisal LTV (Note 6)	%	**51.4**	**49.7**	**45.0**	**44.6**	**43.2**
Market cap (Note 7)	JPY1M	**34,712**	**50,417**	**132,112**	**-**	**155,195**
Distribution per unit	JPY	**-**	**1,621**	**1,939**	**1,940**	**2,146** (Note 8)

(Note 1) Referring to the NOI yield and NOI yield after depreciation on the effective date of merger, the actual of Fiscal period ended March 2012 (12th period) has been applied for the properties owned by former Nippon Hotel Fund Investment Corporation (NHF), and the actual of Fiscal period ended March 2012 (7th period) has been applied for the properties owned by former Japan Hotel and Resort, Inc. (JHR).

(Note 2) Acquisition prices (Scheduled acquisition inclusive) indicate acquisition prices stated on the Purchase and Sales Agreement for the Beneficial Interest in Trust or Real Estate Purchase and Sale Agreement (Consumption tax, local consumption tax and the acquisition expense such as broker's fee are not included.) As for Mercure Sapporo and Mercure Okinawa Naha, (both scheduled to be acquired), acquisition prices (scheduled) are indicated.

(Note 3) As for appraisal value at the end of each fiscal year, in accordance with the asset appraisal method and standards stipulated in the Articles of Incorporation and also with the rules set by The Investment Trusts Association, Japan, appraisal value with the appraisal date at the end of relevant fiscal year is indicated. Dormy Inn Namba was sold as of January 24, 2014. Accordingly, the appraisal value of the property in the appraisal value column for End of FY12/2013 (14th period) indicates the selling price. Appraisal value for previously forecasted indicates appraisal value at the end of FY12/2013 (14th period) excluding Dormy Inn Namba. Appraisal value for After acquiring (scheduled) assets indicates the sum total of the appraisal value with the appraisal date at the end of June 2014 and the appraisal value for assets (scheduled to be) acquired, Best Western Hotel Sapporo Nakajimakoen, Mercure Hotel Sapporo and Mercure Hotel Okinawa Naha, based on the real estate appraisal report prepared by

Japan Real Estate Institute with May 26, 2014, May 16, 2014 and June 1, 2014 as the pricing date, respectively.

(Note 4) NOI = Real estate operating profit – Real estate operating expense + Depreciation expense + Loss on retirement of noncurrent assets
NOI yield = NOI ÷ Acquisition price (or scheduled acquisition price)

(Note 5) NOI After depreciation = Real estate operating profit – Real estate operating expense
NOI yield after depreciation = NOI after depreciation ÷ Acquisition price (or scheduled acquisition price)

(Note 6) LTV (Acquisition price) = Total interest bearing debt ÷ Acquisition price (or scheduled acquisition price) × 100
Appraisal LTV = Total interest bearing debt ÷ total appraisal value × 100
Interest bearing debt as of Previously forecasted and for After acquiring assets (scheduled to be acquired) are calculated with the figures of interest bearing debt as of the end of the midterm period ended December 31, 2014 added by JPY 7,426M of planned borrowing for new acquisition.

(Note 7) The amount is the market cap calculated by using the closing price of the regular transaction at Tokyo Stock Exchange, Inc. on relevant timing for each. However, the market cap on effective date of merger indicated on April 2, 2012.
Market cap after acquiring assets (scheduled to be acquired) is calculated by multiplying the sum (2,791,281 units) of the number of investment units issued (2,621,281 units) and the number of new investment units (170,000 units) which is resolved at today's board meeting by the closing price of the regular transaction at Tokyo Exchange, Inc. on August 8, 2014.

(Note 8) The dividend per unit when the asset acquision effect for the full year was calculated.

(Note 9) The amounts less than JPY1M are rounded down. Fractions less than two decimal places are rounded off.

<Reference 4> Operating status of acquiring assets (scheduled to be acquired) (full year effect)

(Unit: JPY 1M)

	Best Western Hotel Sapporo Nakajimakoen	Mercure Hotel Sapporo	Mercure Hotel Okinawa Naha	Total
Acquisition price (or scheduled acquisition price)	6,797	6,000	3,000	15,797
Appraisal value	6,840	6,030	3,040	15,910
NOI yield (%)	6.4	6.3	6.3	6.3
NOI yield after depreciation (%)	5.3	5.0	4.6	5.0

<Reference 5> Statement of income for fiscal period ending December 2014 (full year forecast)

(Unit: JPY 1MN)

		January 2014 to December 2014 Forecast for full financial year Initial forecast (A)	January 2014 to December 2014 Forecast for full financial year Forecast this time (B)	January 2014 to December 2014 (Reference) Annualized actual (C)	Variance (1) (B) − (A)	Variance (2) (C) − (A)
Profit and loss	Operating income	**11,964**	**12,667**	**13,593**	**703**	**1,629**
	Variable rent	3,006	3,605	4,332	599	1,326
	Fixed rent	8,958	9,061	9,260	103	302
	NOI (*)	**10,180**	**10,881**	**11,509**	**701**	**1,329**
		6.5%	*6.3%*	*6.6%*	*-0.2%*	0.1%
	Depreciation cost	2,358	2,437	2,564	79	206
	Loss on retirement of Noncurrent assets	13	13	13	0	0
	Transfer loss	0	0	0	0	0
	NOI after depreciation (*)	**7,808**	**8,431**	**8,932**	**623**	**1,124**
		5.0%	*4.9%*	*5.2%*	*-0.1%*	0.2%
	Other operating expenses	1,124	1,171	1,227	47	103
	Operating profit	**6,684**	**7,260**	**7,704**	**576**	**1,020**
	Non-operating revenue	0	1	1	1	1
	Non-operating expense	1,609	1,765	1,724	156	115
	Ordinary income	5,074	5,496	5,981	422	907
	Current net profit	**5,072**	**5,494**	**5,979**	**422**	**907**
Dividend	Use of negative goodwill	13	251	13	238	0
	Total dividend	5,085	5,746	5,992	661	907
	Investment units issued	2,621,281	2,791,281	2,791,281	170,000	170,000
	Dividend per unit (JPY)	**1,940**	**2,058**	**2,146**	**118**	**206**

(*) Each is calculated using the following.

NOI (Net operating income) = Real estate operating income − Real estate operating expenses + Depreciation expenses + Loss on retirement of non-current assets. NOI yield = NOI/Total purchase price of the assets owned as of the end of the period. NOI after depreciation = Real estate operating income − Real estate operating expenses. NOI yield after depreciation = NOI after depreciation / Total purchase price of the asset owned as of the end of the period.

(Unit: JYP 1M)

※Major causes of variance

<New property acquisitions >		**Variance ①**	**Variance ②**
Increase in rents, etc.		429	1,355
Increase in operating expenses, etc.		-92	-446
Increase in depreciation		-78	-205
Increase in financial cost		-92	-126
Increase in profit associated with new property acquisitions	(a)	166	577

<Existing properties>		**Variance ①**	**Variance ②**
Increase in rents (HMJ's 5 hotels)		192	192
Increase in management contract revenue (Shinjuku/Kyoto)		43	43
Increase in other revenue		37	37
Decrease in operating expenses		-18	55
Increase in profit from existing properties	(b)	255	329
Current net profit <(a)+(b)>		421	906