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Notice Concerning Operating Forecast for the fiscal period ending December 2014 (15th period)

Japan Hotel REIT Investment Corporation (hereinafter called “JHR”) informs you of the operating forecast for the fiscal period ending December 2014 (15th period: January 1, 2014 through December 31, 2014) as below.

With respect to the operating forecast for the fiscal period ending December 2013 (14th period: January 1, 2013 through December 31, 2013), please see our press release “Notice Concerning Revision of Operating Forecast for Fiscal Period December 2013 (14th period) dated today.

1. Operating forecast for the full fiscal period ending December 2014 (January 1, 2014 through December 31, 2014) (*1)

	Operating income	Operating profit	Ordinary income	Current net profit	Dividend per unit (Excess of earnings exclusive)	Dividend per unit resulting from excess of earnings
December 2014 Midterm	JPY1M 5,275	JPY1M 2,709	JPY1M 1,860	JPY1M 1,858	JPY -	JPY -
December 2014 Full year	11,964	6,684	5,074	5,072	1,940	0

<Reference>

Fiscal period December 2014 (Midterm):

Assumed number of investment units issued as of the end of the term (including own investment equities): 2,621,281 units

Assumed number of own investment equities as of the end of the term: 0 unit

Fiscal period December 2014 (full year):

Assumed number of investment units issued as of the end of the term (including own investment equities): 2,621,281 units

Assumed number of own investment equities as of the end of the term: 0 unit

(*1) Above forecast and number of investment units to be issued as of the end of the forecast term is the forecast as of today, calculated based on “Assumption for the operating forecast for the midterm and full year of the fiscal period December 2014 (15th period)” below. Actual may materially differ from forecast due to various causes.

(*2) Fractions less than the unit is rounded down and fractions after two decimal places are rounded off.

Note: This document is intended to serve as a press release to make available the information on the revision of the operating forecast for the fiscal period December 2014 (15th period). This document should not be construed as solicitation and prospective investors are advised to make any investment decisions at their own judgment and responsibility.

2. Assumption for the operating forecast for the midterm and full year of the fiscal period December 2014 (15th period)

Item	Assumption												
Calculation period	Midterm of fiscal period ending December 2014 (15 th period): January 1, 2014 through June 30, 2014 (181 days) Full fiscal period ending December 2014 (15 th period): January 1, 2014 through December 31, 2014 (365 days)												
Operating asset	<ul style="list-style-type: none">JHR owns twenty eight properties as of today and twenty seven out of twenty eight properties will be continuously owned by the end of the fiscal period ending December 2014. Remaining one property is scheduled to be sold. It is assumed that no asset is to be transferred (acquisition or disposition) during this period but actual may fluctuate depending on transfer of asset. <p><Asset scheduled to be transferred></p> <table><tr><td>Date of transfer</td><td>Name of asset</td></tr><tr><td>January 24, 2014</td><td>Dormy Inn Namba</td></tr></table>	Date of transfer	Name of asset	January 24, 2014	Dormy Inn Namba								
Date of transfer	Name of asset												
January 24, 2014	Dormy Inn Namba												
Operating income	<ul style="list-style-type: none">Operating income has been calculated according to hotel competitiveness and market environment, etc. based on the effective lease contract, etc. as of today.Rent of HMJ’s five hotels (*1) has been calculated as follows: <p>Annual rent (JPY5.382B) = Fixed rent (JPY3.221B/year) + Variable rent (See below for calculation)</p> <p>Variable rent = [1. Total GOP of HMJ’s five hotels (*2) – 2. GOP base amount (*3)] × 81.5%</p> <p><Variable rent of HMJ’s five hotels for the fiscal period ending December 2014></p> <p style="text-align: right;">(Fraction less than JPY1M is rounded down.)</p> <table><tr><td></td><td>Total GOP of HMJ’s five hotels (1)</td><td>GOP base amount (2)</td><td>Variable rent ((1) – (2))×81.5%</td></tr><tr><td>Midterm</td><td>2,143</td><td>1,675</td><td>381</td></tr><tr><td>Full year</td><td>6,003</td><td>3,351</td><td>2,161</td></tr></table> <p>(*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.</p> <p>(*2) GOP (Gross Operating Profit) is the major management index to show the operational capabilities of hotel.</p> <p>GOP = Hotel sales – Following operating expenses (only expenses directly required to manage hotel)</p> <p>1. Sales cost, 2. Labor cost and welfare cost for hotel staffs, 3. Fixture/equipment cost, 4. Cost related to sales department (including outsourcing cost and various handling charges), 5. General administrative expenses, 6. Sales promotion and advertising expenses, 7. Repair and maintenance expenses including facilities maintenance and management expenses), 8. Water and energy expenses, 9. Insurance for operational management, 10. Tax in relation to hotel operational management (revenue stamp duty, etc.) 11. Allowance for bad debts and bad debts loss in relation to receivables, and 12. Other direct expenses in relation to operational management of hotel.</p> <p>(*3) JHR does not expect to change GOP base amount until expiration of the lease agreement.</p> <p>(*4) “Four periods comparisons” for sales, GOP and variable rent of HMJ’s five hotels are shown in <Reference> below.</p>		Total GOP of HMJ’s five hotels (1)	GOP base amount (2)	Variable rent ((1) – (2))×81.5%	Midterm	2,143	1,675	381	Full year	6,003	3,351	2,161
	Total GOP of HMJ’s five hotels (1)	GOP base amount (2)	Variable rent ((1) – (2))×81.5%										
Midterm	2,143	1,675	381										
Full year	6,003	3,351	2,161										

Operating income	Following is breakdown of both variable rent and income through the management contract:					
	<Breakdown of variable rent as of fiscal period ending December 2014>					
	(Fraction less than JPY1M is rounded down)					
		HMJ's five hotels	Ibis Tokyo Shinjuku	Ibis Styles Kyoto Station	Other Variable rent	Total
	Midterm	381	180	168	67	786
	Full year	2,161	372	376	95	3,006
	GOP amount of both Ibis Tokyo Shinjuku and Ibis Styles Kyoto Station are included in real estate operating income and management fee to be paid by JHR is included in operating expenses.					
	Delinquency in rent payment is not assumed for operating income.					
Operating expenses	As for the real estate leasing expenses, our major operating expenses, all expenses except for depreciation expenses are based on past actual, and variable factors are reflected in calculation.					
	JPY849M is assumed to be paid for fixed asset tax and city planning tax, etc.					
	In general, the previous owner and JHR pay fixed asset tax and city planning tax for the acquired asset based on the holding period, and adjustment is made at the closing of acquisition. JHR includes the adjusted amount in the acquisition price thus it will not be included in the expenses for such fiscal period. Accordingly, fixed asset tax and city planning tax for Hilton Tokyo Bay Hotel acquired in April 26, 2013 and Ibis Styles Kyoto Station acquired in October 31, 2013 to be paid on the fiscal period ending December 2014 are assumed to be JPY125M (9 months).					
	Depreciation expenses have been calculated by the straight-line method including the incidental cost and additional capital expenditure for the fiscal period ending December 2014 (15 th period), JPY1.280B, and JPY2.358B is assumed.					
	Repair expenses are assumed amount necessary for each operating period. But please bear in mind that the repair expenses of each operating period may differ materially, as 1. Emergency repair expenses may be necessary due to damage caused by unexpected incident, 2. The more property is fatigued, the more repair expense is needed, and 3. Repair expenses are not required on regular basis.					
Non-operating expenses	JPY1.577B is assumed for borrowing related expenses such as redeeming handling charges for borrowings, interest, and arrangement fee, etc.					
	Expenses for issuing and selling the new investment units are redeemed in three years according to the straight-line method.					
Interest-bearing debts	Balance of interest bearing debts as of January 1, 2014 and as of December 31, 2014 are assumed to be JPY74.784B and JPY73.449B, respectively.					
	Decrease of balance above results from the contractual repayment of JPY807M and prepayment of JPY527M with disposition proceeds of Dormy Inn Namba.					
	Borrowing to be repaid on 15 th period totals JPY15.476B and refinancing is assumed to repay all.					
	Balance of interest-bearing debts are assumed to remain unchanged other than the above.					
Issuance of investment unit	2,621,281 units (units issued as of today) are assumed.					
	It is assumed that no additional investment units are to be issued by the end of December 2014.					
Dividend per unit	JHR assumes to distribute all amount after deducting the amount of loss on retirement of noncurrent asset. Detail is as follows:					
	Current net profit			JPY5.072B		
	Use of Negative goodwill (loss on retirement of noncurrent asset) (*)			JPY13M		
	Total distribution amount			JPY5.085M		

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	<div> <div>Total investment units</div> <div>2,621,281 units</div> </div> <div> <div>Dividend per unit</div> <div>JPY1,940</div> </div> <p>(*) Loss on retirement of noncurrent asset will be covered by dividend allowance with negative goodwill so as not to affect dividend per unit.</p> <p>Dividend per unit may fluctuated by various causes such as fluctuation of rental income resulting from transfer of asset, transfer of hotel lessee, change of lessee's hotel business environment and unexpected repairs, etc.</p>
Dividend per unit resulting from excess of earnings	<p>It is assumed that the excess of earnings (dividend per unit resulting from excess of earnings) will not be distributed.</p>
Other	<ul style="list-style-type: none"> It is assumed that law, tax law, accounting standard, regulations of the listing, and regulations of The Investment Trusts Association, Japan that may impact the forecast above will not be revised. It is assumed that unexpected major incident will not occur in the general economy, the real estate market, and the hotel business environment, etc. The numbers less than JPY1M are rounded down in above assumptions.

<Reference>

(1) Hotel sales by each hotel

Sales of HMJ's five hotels		January 1, 2011 to December 2011 (12 months)		January, 2012 to December 2012 (12 months)		January, 2013 to December 2013 (12 months)		January 2014 to December 2014 (12 month)	
		Actual	Comparison with last period	Actual	Comparison with last period	Forecast	Comparison with last period	Forecast	Comparison with last period
Kobe Meriken Park Oriental Hotel	1st half of the year	2,546	-9.1%	2,544	-0.1%	2,416	-5.0%	2,457	1.7%
	2nd half of the year	3,008	-0.1%	2,922	-2.9%	2,801	-4.1%	2,949	5.3%
	Full year	5,554	-4.4%	5,466	-1.6%	5,216	-4.6%	5,406	3.6%
Oriental Hotel Tokyo Bay	1st half of the year	2,219	-29.1%	3,221	45.1%	3,209	-0.4%	3,227	0.6%
	2nd half of the year	3,529	1.5%	3,542	0.4%	3,947	11.4%	3,711	-6.0%
	Full year	5,748	-13.0%	6,762	17.6%	7,155	5.8%	6,938	-3.0%
Namba Oriental Hotel	1st half of the year	940	2.9%	885	-5.9%	934	5.5%	957	2.5%
	2nd half of the year	968	1.3%	973	0.5%	1,028	5.6%	1,033	0.5%
	Full year	1,909	2.1%	1,858	-2.6%	1,962	5.6%	1,990	1.4%
Hotel Nikko Alivila	1st half of the year	1,911	-6.1%	2,041	6.8%	2,193	7.5%	2,125	-3.1%
	2nd half of the year	3,163	5.3%	3,048	-3.6%	3,190	4.7%	3,365	5.5%
	Full year	5,074	0.7%	5,088	0.3%	5,383	5.8%	5,491	2.0%
Oriental Hotel Hiroshima	1st half of the year	904	-10.4%	989	9.3%	1,046	5.8%	1,063	1.7%
	2nd half of the year	1,034	-2.2%	1,148	11.0%	1,182	3.0%	1,165	-1.4%
	Full year	1,939	-6.2%	2,137	10.2%	2,228	4.3%	2,229	0.0%
Total	1st half of the year	8,521	-13.8%	9,679	13.6%	9,797	1.2%	9,830	0.3%
	2nd half of the year	11,703	1.7%	11,633	-0.6%	12,147	4.4%	12,223	0.6%
	Full year	20,223	-5.5%	21,321	5.4%	21,944	3.0%	22,053	0.5%

(*1) The settlement period for the fiscal period ending December 2012 is nine months but annualized numbers (one year from January 1 through December 31) are shown for comparing hotel business results.

(*2) Less than JPY1M is rounded off for sales. Fractions after two decimal places are rounded off for comparison with last period.

(2) Hotel GOP

GOP of HMJ's five hotels	Year 2011 January 2011 to December 2011		Year 2012 January 2012 to December 2012 (*1)		Year 2013 January 2013 to December 2013		Year 2014 January 2014 to December 2014	
	Actual	Comparison with last period	Actual	Comparison with last period	Forecast (*2)	Comparison with last period	Forecast	Comparison with last period
HMJ's five hotels in total	5,158	-9.4%	5,645	9.4%	6,096	8.0%	6,003	-1.5%
GOP ratio to sales	25.5%	-1.1%	26.5%	1.0%	27.8%	1.3%	27.2%	-0.6%

(*1) The settlement period for the fiscal period ending December 2012 is nine months but annualized 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. Fractions after two decimal places are rounded off for GOP ratio to sales and comparison with last period.

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

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