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For immediate release

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Notice Concerning Lease of Domestic Real Estate (Hotel Nikko Kochi Asahi Royal)

Hoshino Resorts REIT, Inc. (hereinafter “HRR”) announces that Hoshino Resort Asset Management Co., Ltd. (hereinafter the “Asset Management Company”), to which HRR entrusts asset management, has decided to lease “Hotel Nikko Kochi Asahi Royal (hereinafter it may be referred to as the “Property”), a property owned by HRR, from April 1, 2023, as stated below.

The other party to the said lease is a corporation established by ASAHI SHOKUHIN CO., LTD. (hereinafter “ASAHI SHOKUHIN”), which is the tenant of the Property as of today; and the corporation is scheduled to become a wholly owned subsidiary of Hoshino Resorts Group (collectively referring to Hoshino Resorts Inc., its parent company and its subsidiaries; the same shall apply hereinafter) at the same time as the commencement of leasing, and will fall under an interested party, etc., under the Act on Investment Trusts and Investment Corporations (Act No. 198 of 1951 including subsequent amendments; hereinafter the “Investment Trust Act”), as well as an interested party, etc. under the “Interested Party Transactions Rules” which are internal rules of the Asset Management Company. Therefore, pursuant to the “Interested Party Transactions Rules,” the Asset Management Company has obtained the consent of HRR based on the approval of HRR’s Board of Directors’ Meeting held on February 21, 2023.

1. Overview of the Lease

Property No.	Property name	Lessee
O-44	Hotel Nikko Kochi Asahi Royal(Note 1)	Kochi Hotel Management Co., Ltd. (Note 2)

(Note 1) The name of the Property is scheduled to be changed to “OMO7 Kochi” on the same date, on condition that Kochi Hotel Management Co., Ltd. will become a wholly owned subsidiary of Hoshino Resorts Group on the scheduled start date of leasing of the Property.

(Note 2) The lessee, Kochi Hotel Management Co., Ltd. (hereinafter it may be referred to as the “New Management Corporation”), is a new management corporation of the Property, which was established by ASAHI SHOKUHIN, the current tenant of the Property. Hoshino Resorts Group plans to make the New Management Corporation a wholly owned subsidiary at the same time that HRR starts leasing the Property to the New Management Corporation.

(1) Scheduled date of execution of lease agreement: March 1, 2023

(2) For lease terms and other details, please refer to “Lease Summary” in “2. Reason for and Details of the Lease” below.

2. Reason for and Details of the Lease

As announced in the press releases titled “Notice Concerning Scheduled Change of Tenant (Termination of Lease) (Hotel Nikko Kochi Asahi Royal)” dated September 30, 2022 and “Notice Concerning Grant of Preferential Negotiation Right for Lease (Hotel Nikko Kochi Asahi Royal)” dated October 12, 2022, ASAHI SHOKUHIN, the current tenant, is scheduled to move out of the Property on March 31, 2023 upon receipt of a termination notice from the tenant, and accordingly, HRR had granted preferential negotiation rights for the lease of the Property to Hoshino Resorts, Inc.

Since HRR believes that maintaining the competitiveness of its assets under management and achieving stable management by making the most of Hoshino Resorts Group’s high level of expertise in facility management will lead to maximization of unitholder value, it has judged that the New Management Corporation, which will become a 100% subsidiary of Hoshino Resorts Group, is a suitable tenant for the Property, based on the criteria to select tenants and operators stipulated by itself (for details of the selection criteria, please refer to the “Report on the Management Structure, etc. of Issuer of Real Estate Investment Trust Securities, etc.” dated January 25, 2023), and has now decided to select the New Management Corporation as the tenant of the Property and to lease the Property. After the start of the lease, the Property is scheduled to be operated as “OMO7 Kochi by Hoshino Resorts,” an urban tourism brand operated by Hoshino Resorts Group.

In addition, Hoshino Resorts Group plans to carry out large-scale renovation work on the Property from the autumn of 2023, with the aim of providing customers with a stay that allows them to fully enjoy the charms of Kochi, and to reopen the Property around the spring of 2024. In this regard, under the lease agreement to be newly concluded with the New Management Corporation, Hoshino Resorts Group will, in principle, bear the costs and capital expenditures related to the renewal from the perspective of considering the timing and content of investment with high flexibility.

In the lease agreement with ASAHI SHOKUHIN, the current tenant of the Property, the rent type is only “fixed rent,” but in the lease agreement with a New Management Corporation to be newly concluded this time, the rent type is scheduled to become “fixed rent + floating rent (facility profit basis)” after a certain period of time from the renewal. This is intended to ensure that HRR will enjoy the upside of increased earnings by utilizing Hoshino Resorts Group’s high level of management know-how, including the implementation of this renewal, in the future.

Furthermore, through the conclusion of the lease agreement this time, HRR will have the right to purchase, at any time, at the book value at that time, the facilities that will be newly owned by the tenant upon the renewal. In addition, HRR believes that if it makes an offer to the tenant for the purchase, it will have the right to discuss with the tenant about the timing of the purchase and any changes to the rent structure based on that, by which a further increase in the rent can be expected.

The details of the renewal work that Hoshino Resorts Group plans to carry out for the Property are yet to be determined and will be announced once the details are determined.

An outline of the lease agreement to be concluded for the Property this time is as described in the table on the next page. Each column of the table on the next page describes the details of the lease agreement to be concluded between HRR and the New Management Corporation with respect to the Property. However, “leased floor area” indicates the area of the portion included in the leasable area out of the leased floor area stated in the relevant lease agreement.

Reference: Property Summary, etc.

Property name	Hotel Nikko Kochi Asahi Royal(Note 1)
Location	9-15 Kutanda, Kochi-shi, Kochi
Completion date	March 1997 (hotel building)
Initial acquisition date	March 29, 2019
Initial acquisition price	2,200,000,000 yen
Appraisal value (appraisal date)	2,260,000,000 yen (October 31, 2022)
Site area	3,127.39 m ²
Total floor area, leasable area	16,222.49 m ²
Percentage of HRR in total leasable area	3.1%
No. of guest rooms	191 rooms
Tenant, Operator (after April 1, 2023) (scheduled)	New Management Corporation (Note 2)
Annual fixed rent (until March 31, 2023) based on the lease agreement with ASAHI SHOKUHIN, the current tenant	180,000,000 yen (rent type: fixed rent only)

(Note 1) The name of the Property is scheduled to be changed to “OMO7 Kochi” on the same date, on condition that the New Management Corporation will become a wholly owned subsidiary of Hoshino Resorts Group on the scheduled start date of leasing of the Property.

(Note 2) Hoshino Resorts Group plans to make the New Management Corporation a wholly owned subsidiary at the same time that HRR starts leasing the Property to the New Management Corporation.

Hoshino Resorts REIT, Inc.

Lease Summary (After April 1, 2023)	
Lessee	Kochi Hotel Management Co., Ltd.
Type of contract	Fixed-term building lease agreement
Contract period	20 years starting from April 1, 2023 (scheduled)
Leased floor area	16,222.49 m ²
Rent	<p>Annual fixed rent: 83,976,000 yen</p> <p>Floating rent: Floating rent arises under the following conditions, starting from May 1, 2024. Calculation method for floating rent for each month uses, for May to October every year, rent calculation EBITDA of the period of 12 months from December in the second preceding year to November in the preceding year as the floating rent calculation period EBITDA; and for November to next April every year, rent calculation EBITDA of the period of 12 months from June in the preceding year to May in the current year as the floating rent calculation period EBITDA. The amount equivalent to one-twelfth of the total amount calculated based on the following formula (with a lower limit of 0 yen) will be the floating rent.</p> <p>< Calculation ></p> <p>(i) From May 2024 to April 2025</p> <p>A. The amount equivalent to 95% of the portion of floating rent calculation period EBITDA that exceeds 88,395,789 yen (excluding, however, the portion exceeding 100,000,000 yen)</p> <p>B. The amount equivalent to 5% of the portion of floating rent calculation period EBITDA exceeding 100,000,000 yen</p> <p>(ii) May 2025 and thereafter</p> <p>A. The amount equivalent to 70% of the portion of floating rent calculation period EBITDA that exceeds 119,965,714 yen (excluding, however, the portion exceeding 220,000,000 yen)</p> <p>B. The amount equivalent to 28% of the portion of floating rent calculation period EBITDA exceeding 220,000,000 yen</p> <p>(*1) "EBITDA" means the total amount of sales of the Property for a given period, less cost of sales, SG&A expenses, chain service fees and expenses under gross operating profit (GOP).</p> <p>(*2) Cost of sales, SG&A expenses, chain service fees and expenses under GOP shall be limited to those directly related to operations at the Property and shall not include other expenses (including, but not limited to, expenses related to the lessee's other operating facilities).</p>
Security deposit and guarantee deposit	<p>Security deposit: 45,000,000 yen</p> <p>However, if an agreement is reached between the lessor and the lessee to provide collateral in lieu of the security deposit, the obligation and amount of the security deposit may be changed.</p>
Renewal upon expiration	The contract will end at the end of the contract period with no renewal.
Rent revision	Rent may not be revised for a full 10 years from the start date of the lease. Rent may be revised every five years thereafter, when there is a change in tax and public dues or in economic conditions, any other uncontrollable circumstances occur, or both parties reach a mutual agreement.
Midterm cancellation	The lessee may not, in principle, cancel the lease agreement during the contract period. However, after 10 years have elapsed from the date of commencement of the lease, the lessee may terminate the agreement by expressing its intention of mid-term cancellation in writing to the lessor no later than 12 months prior to the date of cancellation.
Penalty	When the lease agreement is canceled for reasons attributable to the lessee, or when the lease agreement is canceled with the consent of the lessor in response to the lessee's intention, the lessee shall pay to HRR, the lessor, as a penalty fee the higher of the amount equal to the rent from the date of cancellation or termination until the last day of the non-cancellation period (10 years after the start of the lease period) or the amount equal to 12 months' rent (in calculating such rent, the average monthly rent for the past 12 months will be used, with the month preceding the month to which the date of termination of this lease agreement belongs as the first month. However, if the lease period is less than 12 months, the average monthly rent for the lease period will be used).
Method for re-contract	The contract will end at the end of the contract period without renewal; however, re-contracting is possible through discussion between the concerned parties.

3. Transactions with Interested Party, etc.

The New Management Corporation selected as a tenant of the Property by HRR is scheduled to become a wholly owned subsidiary of Hoshino Resorts Group at the same time as the commencement of leasing, and will fall under an interested party, etc. under the Investment Trust Act, as well as an interested party, etc. under the “Interested Party Transactions Rules” which are internal rules of the Asset Management Company. Therefore, pursuant to the “Interested Party Transactions Rules,” the Asset Management Company has obtained the consent of HRR based on the approval of HRR’s Board of Directors’ Meeting held on February 21, 2023.

4. Future Outlook

The impact of the commencement of leasing of the Property on the management status of HRR for the fiscal period ending April 2023 (November 1, 2022 to April 30, 2023) and the fiscal period ending October 2023 (May 1, 2023 to October 31, 2023) will be minor, and there is no change from the “(REIT) Financial Report for Fiscal Period Ended October 2022” released on December 15, 2022.

* HRR website address: <https://www.hoshinoresorts-reit.com/en/>