大江戸温泉リート投資法人

[Translation for reference purposes only]
November 15, 2022

To all parties concerned:

Real Estate Investment Trust Securities Issuer:
Ooedo Onsen Reit Investment Corporation
Representative: Fuminori Imanishi, Executive Director
(Securities Code: 3472)
Asset Manager:
Ooedo Onsen Asset Management Co., Ltd.
Representative: Fuminori Imanishi, Chief Executive Officer
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Supplementary Materials Concerning Press Release Dated November 15, 2022
Notice Concerning Transfer of Real Estate in Japan
Notice Concerning Revisions to Fixed-term Building Lease Contracts
Notice Concerning Conclusion of Basic Agreement of New Rent System

Significance and timeline of the actions this time

While strengthening the current financial base through the sale of properties, we will provide support for our tenant and sponsor, the Ooedo-Onsen Monogatari Group, through a partial reduction or exemption of fixed rent. Although distributions are expected to decrease in the short term due to lower AUM and rents, we believe that this is an unavoidable measure for the sustainable and long-term operation of Ooedo Onsen Reit Investment Corporation (the "Investment Corporation").

On the other hand, we aim to make the REIT operation more attractive with a structure that will enable us to enjoy the growth of the Ooedo-Onsen Monogatari Group through increased rent income by shifting to a new rent system.

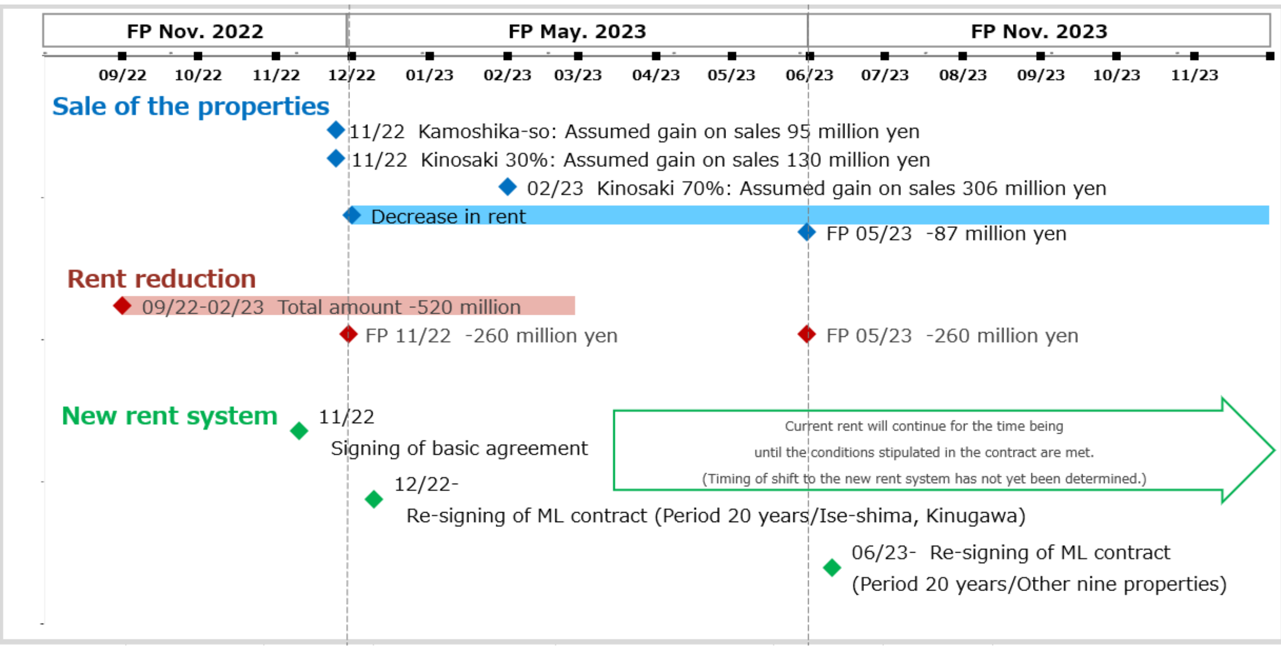
Action 1. Sale of properties to improve the finances of the Investment Corporation (November 2022 and February 2023)
Sale of Ooedo-Onsen Monogatari Kamoshika-so and Ooedo-Onsen Monogatari Kinosaki

Action 2. Short-term support for the sponsor (from September 2022 to February 2023)
Reduction of fixed rent by 50% for six months

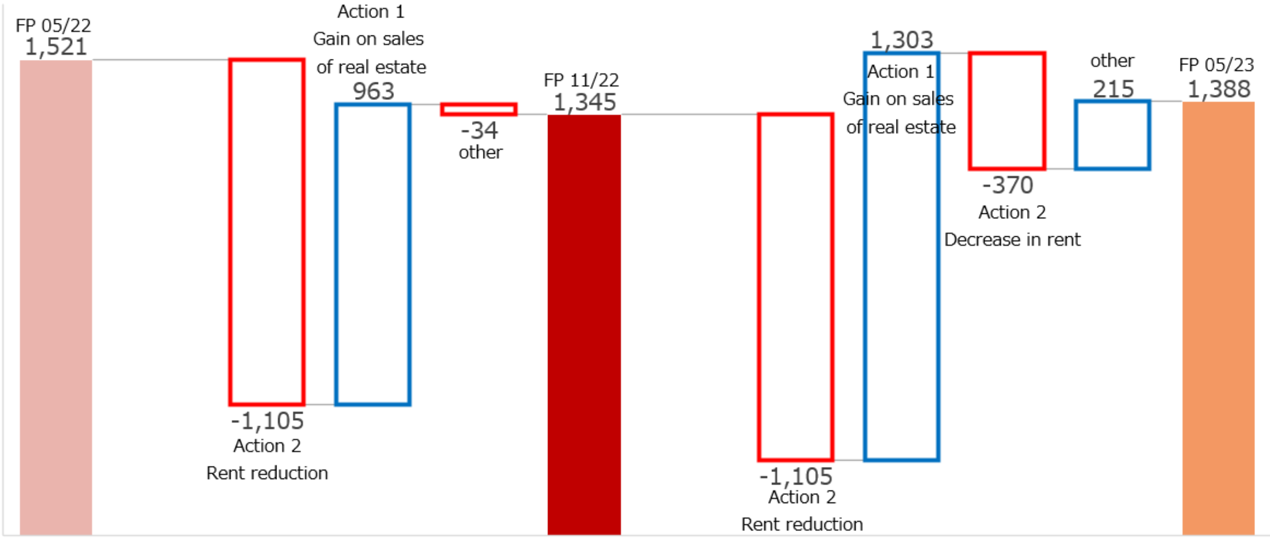
Action 3. Agreement on changes in the rent system in the future (in and after November 2022)
Facilities that have achieved a certain Modified GOP* will shift to the new rent system after the end of the COVID-19 pandemic.

*"GOP" is gross operating profit, the amount calculated by tenant, which is remaining after deducting the expenses arising directly from the management of each facility, such as labor expenses and general and administrative expenses, from each facility's sales. "Modified GOP" is the amount remaining after deducting real estate-related expenses for the property to be borne by the tenant (including, but not limited to, taxes and public charges, non-life insurance premiums and land and house rent, but excluding an amount equivalent to secondary rent) from the GOP of each facility. In the supplementary materials below, Modified GOP is simply referred to as GOP.

< Overall timeline >



< Impact on distributions for FP2022/11 and FP2023/05 >



*The impact of Action 3 on distributions for the fiscal periods ending November 30, 2022 and May 31, 2023 has not been factored in because the timing of the shift to the new rent system has not yet been determined.

Action 1. Sale of properties to improve the finances of the Investment Corporation

Sale of Ooedo-Onsen Monogatari Kamoshika-so and Ooedo-Onsen Monogatari Kinosaki

1. Background

In order to respond to future refinancing risks, we will secure cash on hand by selling properties we own and utilize gains on sales as the source of distributions.

This transaction falls under a related party transaction with the sponsor. In principle, the Investment Corporation will not sell to related parties for less than the appraisal value of the property, and if there are reasonable grounds for transferring the property at a price below the appraisal value, the Investment Corporation may transfer the property at a price that is 90% of the appraisal value as a minimum. In the recent sale of the properties, however, we solicited a wide range of potential buyers (about 10 companies), and the sponsor offered the highest terms. Therefore, we have decided to sell Ooedo-Onsen Monogatari Kinosaki, although its sale price was less than the appraisal value (95%). Ooedo-Onsen Monogatari Kamoshika-so was sold for its appraisal value.

2. Impact on the Investment Corporation

・ We aim to improve the debt financing situation and restore LTV flexibility by expanding cash on hand (3,777 million yen).
・ After the debt financing situation improves (in and after May 2023), we will seek to acquire new properties, mainly those outside the sponsor, to recover the asset size.
・ This transfer will be executed in two installments, at the end of November 2022 and at the end of February 2023, so that the gain on sales will be recorded in the fiscal period ending November 2022 (assumed gain on sales 226 million yen) and the fiscal period ending May 2023 (assumed gain on sales 306 million yen), thereby mitigating the impact of the rent reduction and exemption described in Action 2. above on distributions.

Action 2. Short-term support for the sponsor

Reduction of fixed rent by 50% for six months

1. Background

The sponsor and tenant, the Ooedo-Onsen Monogatari Group, has continued to pay fixed rent to the Investment Corporation through additional borrowings, while suffering a decline in occupancy and other factors associated with the impact of COVID-19. The sponsor then welcomed a new shareholder, Lone Star Funds, in February 2022 and reduced borrowings that had increased in previous years through recapitalization. The sponsor planned to invest to increase the value of its facilities and invest in new store openings under its medium-term management plan, and established a framework for additional investments and additional borrowings by the new shareholder to finance these investments.

However, the impact of COVID-19 has continued through this summer, and while occupancy is showing an improving trend, the earnings outlook is grim, making it difficult to achieve the periodic income required for additional borrowings. In light of the fact that if the sponsor were to be unsuccessful in obtaining additional borrowings, it would be difficult to operate the properties owned by the Investment Corporation, the Investment Corporation also recognized the need to provide a certain level of support, in addition to the above support by shareholders and lenders. Specifically, as a short-term support for the sponsor, we have decided to temporarily reduce fixed rent or exempt the tenant from paying rent, subject to the following conditions.

- Able to establish an outlook for tenants to get through COVID-19 and to have expectations for medium- to long-term growth
- Able to confirm the strong commitment of the tenant to continue operations

This action is expected to help the tenant, the Ooedo-Onsen Monogatari Group, achieve the periodic income required for financing and ensure its financial soundness, which will help it overcome the COVID-19 pandemic and promote the tenant's investment in existing facilities, including those owned by the Investment Corporation, to increase their value, as well as renewal investments, including safety enhancement, which is in turn expected to stabilize and improve the Investment Corporation's rent income over the medium to long term.

2. Impact on the Investment Corporation

Decrease in rent income 520 million yen (FP2022/11 260 million yen, FP2023/05 260 million yen)

Action 3. Agreement on changes in the rent system in the future
Facilities that have achieved a certain GOP will shift to the new rent system after the end of the COVID-19 pandemic.

We will conclude a basic agreement to shift to the new rent system from the next fiscal period of the investment Corporation for facilities that have achieved a certain GOP* through the implementation of the Ooedo-Onsen Monogatari Group's medium-term management plan.
*The certain GOP is the numerical target for each facility agreed upon by the Investment Corporation and the tenant as the target for the Modified GOP for the variable rent calculation period (one year) as stipulated in the lease agreement (Hereinafter the "Target GOP").

1. Background
The Investment Corporation has been keeping higher percentage of fixed rent in the entire rent income, aiming to place greater emphasis on stability based on the constant high occupancy backed by the Ooedo model. However, while experiencing a major drop in occupancy during crises such as the COVID-19 pandemic even with the Ooedo model, we saw that the high fixed rent burden put pressure on tenants' finances and reduced the flexibility of operations.

Therefore, we have determined that lowering the fixed rent a certain degree is reasonable to ensure stable leasing and rent income over the medium to long term, and is also in the interest of the Investment Corporation over the medium to long term.

In addition, with an eye on the recovery of tenant performance and growth in the future, and in order to enjoy the upside of a reversal following the COVID-19 pandemic or a boom in lodging and hot springs, we will work to further increase rent income on the upside by increasing the variable rent composition ratio and its rate, and if the GOP exceeds a certain level, we will add 25% of the excess as variable rent II.

2. Conclusion of basic agreement and future revisions to lease contracts
A basic agreement focusing on the introduction of a new rent system in the future will be signed this time, and the existing lease contracts will be revised in December 2022 for facilities where tenants plan to invest and renovate at their own expense to increase value (Ise-shima, Kinugawa Kanko: hereinafter "Facilities Subject to Value-up Program"), and in June 2023 for other facilities (hereinafter "Facilities not Subject to Value-up Program"), with the new lease term of 20 years from the time of each revision.

3. Conditions for shift to the new rent system and its structure
We will shift each facility to the new rent system when the Target GOP is achieved. Therefore, until the Target GOP is achieved, the current rent system will continue.

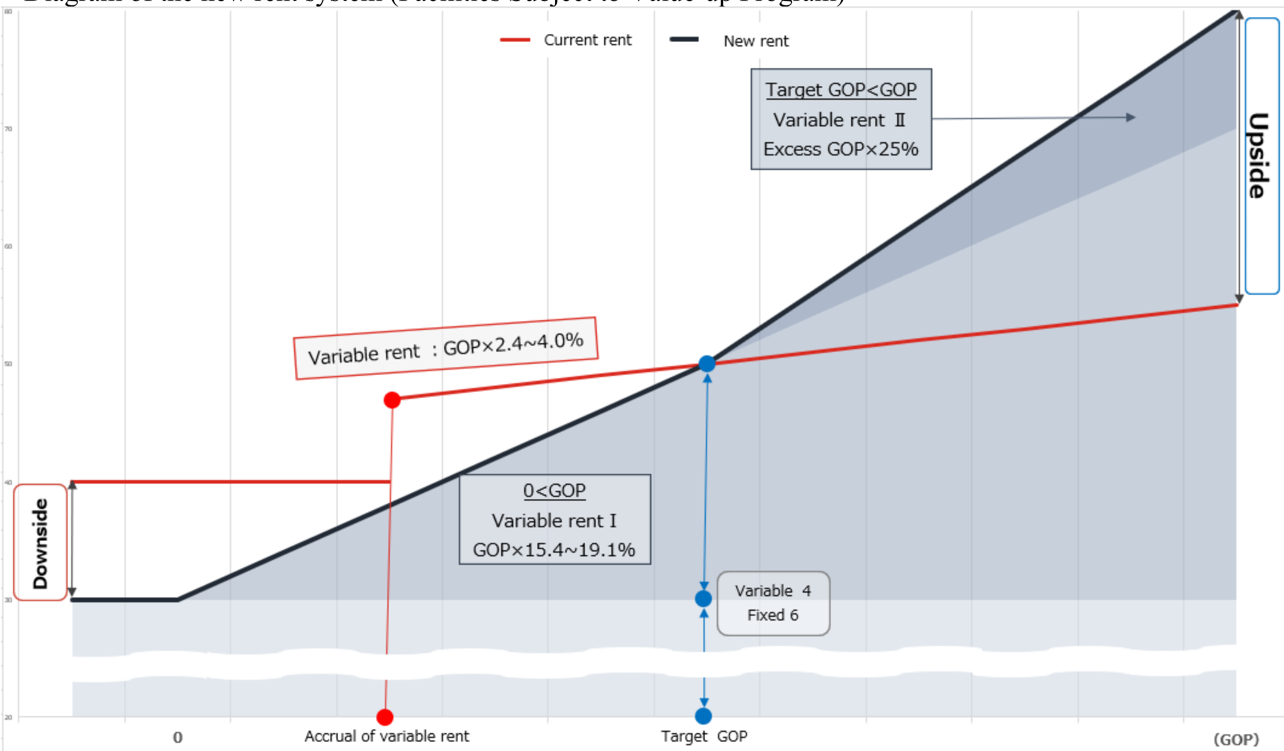
(1) Facilities Subject to Value-up Program
Fixed rent will be set at 60% of the total rent (fixed + variable) based on the current conditions calculated at the Target GOP level, and variable rent I will be set at 40% of the total rent (fixed + variable) based on the current conditions calculated at the Target GOP level.

As variable rent II (additional rent), a new rate of 25% will be set in addition to variable rent I for the incremental GOP in excess of the Target GOP.

[GOP levels and rents to be generated]
(i) GOP < 0: Only fixed rent without the accrual of variable rent
(ii) 0 ≦ GOP < Target GOP: Fixed rent + Variable rent I
(iii) Target GOP ≦ GOP: Fixed rent + Variable rent I + Variable rent II

If the entire building will be closed due to the Value-up Program work by the tenant in the future, the fixed rent during the period of this closure will be reduced from the current fixed rent to the fixed rent level in the new rent, provided that the conditions required by the Investment Corporation (such as the consent of the lender) are met.

< Diagram of the new rent system (Facilities Subject to Value-up Program) >



(2) Facilities not Subject to Value-up Program

Fixed rent will be set at 70% of the total rent (fixed + variable) based on the current conditions calculated at the Target GOP level, and the variable rent I will be set at 30% of the total rent (fixed + variable) based on the current conditions calculated at the Target GOP level.

As variable rent II (additional rent), a new rate of 25% will be set in addition to variable rent I for the incremental GOP in excess of the Target GOP x 110%

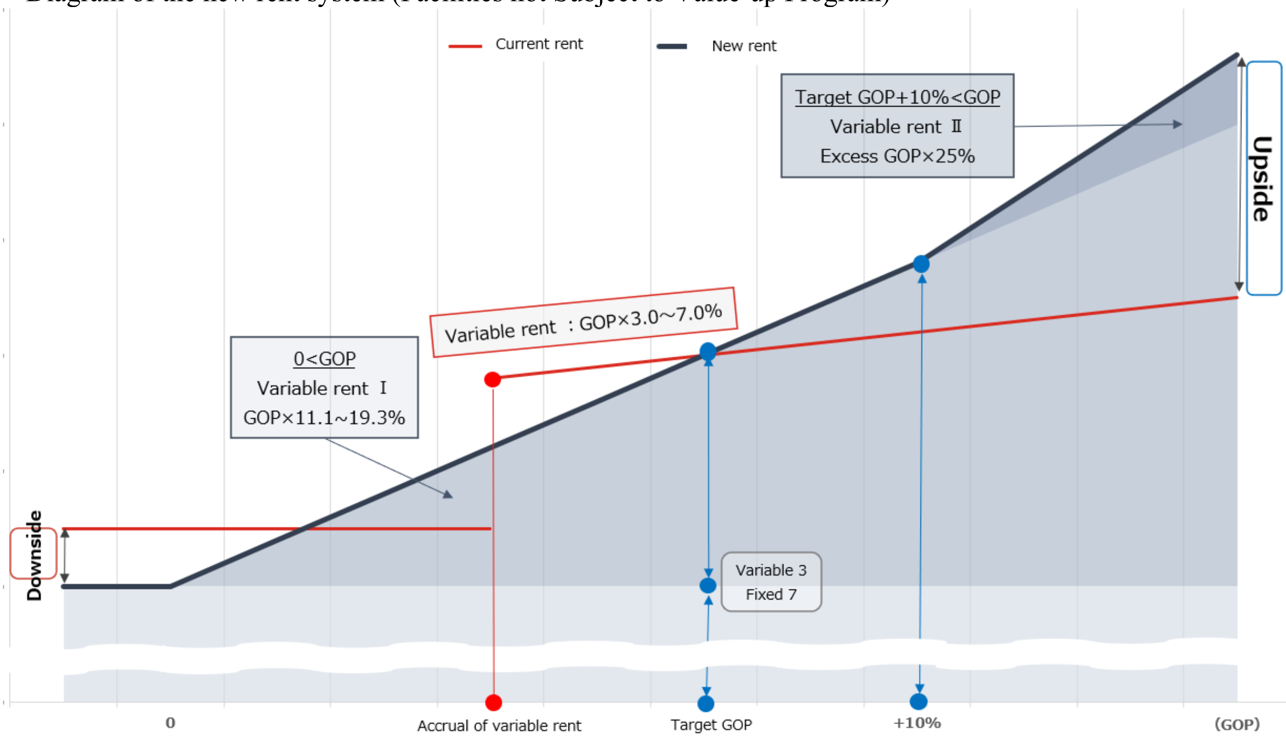
[GOP levels and rents to be generated]

(i) GOP < 0: Only fixed rent without the accrual of variable rent

(ii) 0 ≦ GOP < Target GOP: Fixed rent + Variable rent I

(iii) Target GOP x 110% ≦ GOP: Fixed rent + Variable rent I + Variable rent II

< Diagram of the new rent system (Facilities not Subject to Value-up Program) >



*This chart illustrates the typical patterns for the 11 Facilities not Subject to Value-up Program. The position where the new rent line (black) crosses the current rent line (red) varies from property to property.

4. Impact on the Investment Corporation

After the shift to the new rent system, if the performance of the sponsor, the Ooedo-Onsen Monogatari Group, deteriorates, the number of cases where the rent that can be received may decrease from the current rent increases, but if performance improves, an upside compared with the current rent is expected through variable rent I and variable rent II, as shown in the chart above.

Since the shift to the new rent system will take place after the Target GOP is achieved, the current rent will be maintained for the time being.

5. Others

(1) Impact of the implementation of the planned actions on credit risk

The Investment Corporation considers that the planned actions will have a positive effect on credit risk, because part of the proceeds from property sales will be used to fund the early repayment of loans in accordance with the basic agreement between the Investment Corporation and the lender, while the remaining amount will be retained as cash on hand. As a result, the indebtedness ratio will decline and liquidity on hand will improve. On the other hand, although debt service coverage will temporarily decrease due to a tentative reduction in rent, debt service coverage ratios (DSCRs) will not be adversely affected and there will be no problem in adhering to restrictive financial covenants.

* DSCR is calculated based on (operating income + depreciation + amortization of leasehold + gain (loss) on sale of real estate) / (scheduled repayments + interest expenses).

(2) Risk of plunging into a deficit, etc. as a result of the implementation of the planned actions

The Investment Corporation considers that the implementation of the planned actions will not cause any situation in which it plunges into a deficit or becomes incapable of distributing proceeds. This is because the transition to the new rent system will not be conducted unless the Sponsor’s business performance recovers and because the Investment Corporation will not run a deficit even if only fixed rents are paid after the transition to the new rent system.

* The Investment Corporation’s website: https://oom-reit.com/en/