



NEWS RELEASE

No.2009-C-592
Jul 06, 2009

R&I Changes Rating Outlook Negative: Japan Hotel and Resort, Inc.

Rating and Investment Information, Inc. (R&I) has announced the following.

ISSUER: Japan Hotel and Resort, Inc. (Sec. Code: 8981)
Issuer Rating

R&I RATING: A
RATING OUTLOOK: Negative (Changed from Stable)

RATIONALE:

Japan Hotel and Resort, Inc. (JHR) is a real-estate investment trust (J-REIT) specialized in hotels. The sponsor is Goldman Sachs Group.

On July 3, JHR revised down its forecast on operating revenues and net income for the term ending in August 2009 by approximately 11% and 31% respectively from its estimate announced in April 2009. This is mainly due to the expected plunge in variable rent revenue, which links to the performance in its holding hotels, as a result of the outbreak of swine influenza and economic slowdown. Its NOI yield (net operating income, rental income before depreciation) for this term is likely to fall to the lower range of 5% from approximately 6% estimated in April. While swine influenza seems to be a temporary phenomenon, the impact from the sluggish economy will likely to continue for the interim. Therefore, R&I has changed the Rating Outlook to Negative.

Variable rent revenue is applied in JHR's five major properties, and this accounted for approximately 40% of the total rent revenue of the previous term. The variable rent revenue basically is linked with hotel sales, but is capped according to the amount calculated from the hotel's profit level. JHR's rent revenue during this term is expected to decrease significantly as a result of this cap. Nevertheless, each hotel is relatively competitive, and JHR can expect supports related to hotel management from the sponsor group. Furthermore, the majority of JHR's rent income is fixed rents, and this is expected to mitigate further negative influence. R&I will follow the performance of each hotel and measures taken by the asset management companies which aim for earnings recovery.

JHR is maintaining a stable financial condition. It has managed to make refinances from three financial institutions in February and March 2009, and therefore, its loans (excluding scheduled payments) will not become due until February 2011. JHR's debt to total asset ratio is also maintained at a conservative level of approximately 40%.

The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/st/methodology.html>

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R&I RATINGS:

ISSUER: Japan Hotel and Resort, Inc. (Sec. Code: 8981)
ISSUER RATING: A
RATING OUTLOOK: Negative (Changed from Stable)

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In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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