



# NEWS RELEASE

No.2009-C-1153  
Dec 24, 2009

## R&I Downgrades to A-, Stable: 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- (Downgraded from A)**

**RATING OUTLOOK: Stable**

### **RATIONALE:**

Japan Hotel and Resort, Inc. (JHR) is a real-estate investment trust (J-REIT) which was listed on the stock exchange in February 2006. Specialized in hotels, the trust owns eight properties with the total acquisition value of approximately 85 billion yen. The trust is sponsored by the U.S.-based Goldman Sachs Group.

The economic downturn and the outbreak of swine flu, among others, have depressed variable rent revenues. The rating downgrade this time is primarily attributable to a sharp decline in profit and cash flow levels on the back of a decline in such revenues that are linked to financial performance of hotels owned by JHR.

In the term ending August 2009, operating revenues declined approximately 11%, with the NOI yield (net operating income, rental income before depreciation) falling to 5.3% from 6.1% in the previous term. Net income decreased approximately 45% due to the decline in operating revenues and an increase in financial expenses. While the negative impact from the swine flu outbreak appears to be a temporary factor, the adverse effects from the economic downturn will very likely continue going forward. As such, a recovery of profit and cash flow levels is expected to take considerable time.

The variable rent system is implemented at JHR's major five hotels. According to the results for the term ending August 2009, variable rent revenues accounted for 30% of the JHR's total rent revenues. Variable rent revenues are basically linked to revenues at hotels, but the ceiling is set based on the profit level of hotels. In the term ending August 2009, the size of rent revenue decline was substantial because variable rent revenues exceeded the ceiling (revenues at hotels implementing such system fell 5.3%, while variable rent revenues fell 30%). JHR's projections for the term ending August 2010 assume variable rent revenues exceeding the ceiling on the premise that the harsh environment for hotel operations will continue for the time being.

That said, further negative impacts can be mitigated, given that 1) each hotel is relatively competitive in the respective markets, 2) support for hotel management can be expected from the sponsor group and 3) fixed rent revenues account for 70% of the total. R&I will continue to keep an eye on operations at the major five hotels.

Financial conditions are stable. With the ratio of debt to total assets at approximately 42%, JHR is cautious on raising the debt ratio in the future. Moreover, since JHR has refinanced debt from three financial institutions, which have been business partners from the past, in February and March 2009, the due date of loans except for the portion of scheduled payment will not arrive until February 2011.

As mentioned above, the possibility of a further substantial decline in rent revenues looks limited in the future and financial conditions are stable. In consideration of such factors, the Rating Outlook is Stable.

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**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

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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>

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

**R&I RATINGS:**

**ISSUER:**

**Japan Hotel and Resort, Inc. (Sec. Code: 8981)**

**ISSUER RATING:**

**A- (Downgraded from A)**

**RATING OUTLOOK:**

**Stable**

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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