



NEWS RELEASE

Dec 22, 2011

R&I View: Japan Hotel and Resort & Nippon Hotel Fund Investment to Merge JHR on Rating Monitor v/downgrading due to sponsor change

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

ISSUER: Japan Hotel and Resort, Inc.
Issuer Rating: (A-), With View to Downgrading, Previously A-

RATIONALE:

Japan Hotel and Resort, Inc. (JHR) and Nippon Hotel Fund Investment Corp. (Sec. Code: 8985, Issuer Rating: BBB+, NHF) entered into a merger agreement on December 22. NHF will become a surviving entity of the merger, and the merger will take effect in April 2012. Prior to the merger, the RECAP group, a foreign real estate investment fund and a main sponsor of NHF, will acquire all the shares in the asset management company of JHR. The transaction is scheduled to be completed on December 29.

The merger will expand the asset size of the surviving entity, diversify its portfolio, and widen its options for fund management, among which could be a portfolio reshuffle using a gain from negative goodwill. R&I considers the merge itself will benefit both parties.

However, the current rating for JHR factors in support from the Goldman Sachs Group in terms of investment, management and funding. R&I must evaluate negatively the fact that following this merger deal, the Goldman Sachs Group will no longer be a sponsor.

Furthermore, the earnings environment for hotels remains challenging. There are many causes for concern, including a delay in economic recovery, emergence of competitors and a fall in the number of foreign guests because of the Great East Japan Earthquake. JHR's sales and profits from the major five hotels, which are operated at variable rents, declined sharply after the Lehman Brothers bankruptcy, and dropped further in the fiscal year ended August 2011 in the aftermath of the earthquake disaster. Although the impact of the disaster is diminishing, prospects for earnings recovery are uncertain.

In consideration of the aforementioned factors, R&I has placed the rating for JHR on the Rating Monitor with a view to downgrading. R&I has not placed the rating for NHF on the Rating Monitor based on its view that the REIT is in a bleak earnings environment as mentioned above although it will benefit from the merger.

Going forward, R&I will examine the details of the post-merger portfolio, management structure, financial policy, etc. while following the progress in the merger procedures, and will incorporate the outcome into the rating.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". 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/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: Japan Hotel and Resort, Inc. (Sec. Code: 8981)
Issuer Rating
RATING: (A-), With View to Downgrading, Previously A-

Shelf Registration (Bonds)
ISSUE AMOUNT (mn): JPY 100,000
ISSUE PERIOD: From Jul 01, 2010 to Jun 30, 2012
RATING: (A-), With View to Downgrading, Previously A- (Preliminary)

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Dec 28, 2010	Dec 27, 2013	JPY 2,000
RATING:	(A-), With View to Downgrading, Previously A-		

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A preliminary rating is assigned when a provisional credit rating is needed for an individual obligation on which final terms have not been determined. A credit rating finally assigned may differ from the preliminary rating depending on, among others, the details of the actual contract of the individual obligation.

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