



NEWS RELEASE

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R&I View: Earthquake Impacts on Japan Hotel and Resort No rating actions at this juncture, eyes on recovery in earnings going forward

Japan Hotel and Resort, Inc. (JHR, Sec. Code: 8981, Issuer Rating: A-) announced on April 21 its midterm results for FY2010 ending August 2011. Although 1H FY2010 results were basically in line with the company's projections, it didn't release full-term estimates because of difficulties in predicting variable rent revenues, which are linked to hotels' earnings, in the wake of the March 11 Great East Japan Earthquake.

Revenues from variable rents accounted for 33% of the total rent revenues in the previous term results. Such rent system is applied to JHR's 5 major properties. Although property damage was relatively marginal, the occupancy rate of Oriental Hotel Tokyo Bay has fallen sharply due to the temporary close of Tokyo Disney Resort, with other hotels also affected by shrinking travel demand amid consumers' self-restraint mood and other reasons. Accordingly, it seems that a substantial decline in full-term FY2010 results looks unavoidable.

Tokyo Disneyland reopened on April 15. With Tokyo Disney Sea slated to reopen on April 28, revenues at Oriental Hotel Tokyo Bay should rebound gradually going forward. Moreover, since 4 out of the 5 major properties are located in western Japan, a substantial falloff in travel demand due to consumers' self-restraint mood should ease to some extent as time elapses since the earthquake. As such, R&I sees no need for rating actions at this juncture.

Meanwhile, a fall in consumer confidence due to the earthquake and electricity shortages, among other reasons, and a decline in foreign tourists due to the nuclear crisis may affect hotels' earnings over the medium term. Close eyes should be kept on a recovery of hotels' performance going forward.

JHR's portfolio is 87% comprised of the major 5 properties on an acquisition price basis and this is a factor which greatly fluctuates earnings. The company has acquired a Japanese-style accommodation facility (fixed rent) in Hakone in March. Important issues for the company in the future may continue to include diversification of the portfolio through external growth and stabilization of earnings by raising the percentage of fixed rent revenues.

JHR's financial conditions are relatively stable. As a result of the refinancing of 19 billion yen during the December 2010 to February 2011 period, among other measures, the company has increased correspondent financial institutions, lengthened out the funding duration and staggered repayment dates. At around 45%, the LTV ratio is maintained at relatively conservative levels.

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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