

MORI TRUST Sogo Reit Entered into Merger Agreement with Mori Trust Hotel Reit—Limited Impact on MORI TRUST Sogo Reit's Rating

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by MORI TRUST Sogo Reit, Inc. (security code: 8961) of its conclusion of a merger agreement with MORI TRUST Hotel Reit, Inc. (security code: 3478).

- (1) On November 22, 2022, MORI TRUST Sogo Reit, Inc. (MTR) and MORI TRUST Hotel Reit, Inc. (MTH) announced that they had signed a merger agreement effective March 1, 2023. In the merger, MTR will become the surviving corporation and absorb MTH, and plans to transform itself into a diversified REIT with offices and hotels as its core assets and change its trade name to "MORI TRUST REIT, Inc." through the merger. After the Merger, MTR plans to continue to outsource its asset management operations to MORI TRUST Asset Management Co., Ltd. (AM) under the asset management agreement that will remain in force.
- (2) JCR has announced a long-term issuer rating and ratings on the investment corporation bonds for MTR. With the merger, acquisition of the Sendai MT Building, transfer of the Shinbashi Ekimae MTR Building, and additional acquisition of the Kamiyacho Trust Tower, its portfolio is expected to expand from 324.7 billion yen to 471.1 billion yen (both on an acquisition price basis), and the LTV based on total assets will remain generally unchanged. On the other hand, JCR believes that the impact of the merger on MTR's rating will be limited, although it will be necessary to assess whether the acquisition of the hotels where earnings volatility risk became apparent due to the COVID-19 pandemic, will ensure stable cash flow. The hotels to be acquired after the merger are mainly high-quality hotels developed by the sponsor, which have a strong location advantage. In addition, the hotels have a high ratio of international brands and will be able to attract a wide range of international and domestic customers. Furthermore, JCR believes that the hotels have a certain degree of stability in cash flow, as minimum guaranteed rent is adopted in addition to long-term fixed rent and variable rent according to the hotel's characteristics. JCR will watch the progress of the merger and its effects and cash flow trends, etc., and will reflect them in MTR's rating after confirming the management status, strategy, financial policy, etc., by AM.

Shigeo Sugiyama, Takanori Akiyama

<Reference>

Issuer: MORI TRUST Sogo Reit, Inc.

Long-term Issuer Rating: AA Outlook: Stable

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