

Outlook On Japan Real Estate Investment Corp. Revised To Negative

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OVERVIEW

- JRE holds the second-largest asset portfolio among the listed J-REITs that focus on office buildings and commands high market recognition.
- JRE's debt-to-capital ratio has risen moderately and its profitability measures and financial indicators are slightly weak amid difficult business conditions.
- We are revising to negative from stable the outlook on the long-term corporate credit rating on JRE.
- We are affirming our long-term corporate credit and unsecured debt ratings and our short-term corporate credit rating on JRE, given the company's strong business position and generally stable cash flows derived from its very high quality real estate portfolio.

TOKYO (Standard & Poor's) March 23, 2010--Standard & Poor's Ratings Services today revised to negative from stable its outlook on the long-term corporate credit rating on Japan Real Estate Investment Corp. (JRE). At the same time, we affirmed our 'AA-' long-term corporate credit rating and unsecured debt ratings, as well as our 'A-1+' short-term corporate credit rating on JRE.

The outlook revision is based on the following factors: (1) JRE's rental revenues are experiencing certain downward pressure amid difficult business conditions; its debt-to-capital ratio has been hovering at levels that are relatively high in the target range established under the company's conservative financial policy, and its profitability measures and financial indicators are rather weak; (2) Given current real estate market conditions, JRE is likely to actively pursue external growth. As weak funding conditions in the equity market have yet to fully recover, we see a possibility that the

company may experience some delays in restoring its conservative financial profile; and (3) The portfolio's unrealized profit (the difference between the appraisal value and the book value of the portfolio at the end of the fiscal term) is decreasing, thereby weakening JRE's financial buffer to a certain degree. On the other hand, we affirmed our ratings on JRE, reflecting the company's strong business position in the Japanese real estate investment trust (J-REIT) market and generally stable cash flows derived from its very high-quality portfolio.

JRE has said that it intends to pursue a conservative financial policy, maintaining its ratio of debt to total assets at between 30% and 40%. However, as of Sept. 30, 2009 (end of the 16th fiscal term), the company's debt-to-capital ratio (interest-bearing debt including Hoshokin liabilities/(interest-bearing debt + total net assets) according to Standard & Poor's definition) stood at about 41.9%, which is slightly higher than former levels, due to weakness in capital markets. JRE carried out an approximately ¥26.7 billion capital increase in December 2009. Yet, as the company has seen a decline in the amount of funds it has raised due to volatility in the capital markets, and made property acquisitions since then, we expect the debt-to-capital ratio to be around 44% at the end of the 17th fiscal term (ending March 31, 2010).

The weakness in the office leasing market is putting downward pressure on JRE's rental revenues. The portfolio's average occupancy rate had declined to 92.0% as of Jan. 31, 2010. The company's profitability measures have also weakened slightly. JRE's current financial indicators are slightly weak compared with the assumptions in the analysis for our initial ratings assignment. Since the company believes that real estate market prices would bottom out in the foreseeable future, it intends to shift the focus of its operations to external growth. Future financing market conditions, if not stabilized, may cause delays in restoring the company's conservative financial profile. Moreover, the unrealized profit on JRE's portfolio has decreased (about 9.5% as of Sept. 30, 2009).

We may consider lowering the ratings on JRE if the real estate leasing market and the capital markets suffer prolonged weakness, and/or if we see an increased likelihood of the company facing delays in improving its profitability measures and financial indicators. On the other hand, we may revise the outlook to stable if profitability measures recover, and the outlook for financial indicators, such as leverage and interest coverage, clearly improves as the company pursues external growth.

Standard & Poor's expects JRE to maintain good credit quality, backed by its solid business position, very high-quality real estate portfolio, and strong financial flexibility, thereby affirming our 'AA-' long-term corporate credit rating and unsecured debt ratings, as well as our 'A-1+' short-term corporate credit rating on JRE.

JRE boasts the second-largest asset portfolio among the listed J-REITs that focus on office buildings. The company has a strong business position in the

J-REIT market and commands high market recognition, backed by the strong brand recognition and credit quality of its sponsors, Mitsubishi Estate Co. Ltd. (Mitsubishi Estate; A+/Stable/A-1), Dai-ichi Mutual Life Insurance Co. (A/Negative/--), and Mitsui & Co. Ltd. (A+/Stable/A-1). As of Feb. 28, 2010, JRE owned a portfolio of 55 office properties throughout Japan located mainly in the 23 wards of Tokyo, worth about ¥620.6 billion, based on total purchase price. Using funds secured in a timely manner, JRE has made large property acquisitions utilizing its sponsor network despite difficult business conditions. In particular, JRE acquired an additional stake in Shiodome Building (Minato-ward, Tokyo; purchase price of additional stake: ¥54.6 billion) in January 2010. The company intends to acquire an additional stake in Tokyo Opera City Building (Shinjuku-ward, Tokyo; about ¥22.4 billion) in March 2010.

RELATED RESEARCH

"Rating Policy For Japanese Real Estate Investment Trusts", published on May 9, 2001.

OUTLOOK REVISED

To	From
Negative	Stable

RATINGS AFFIRMED

Japan Real Estate Investment Corp.	Rating
Long-term corporate credit rating	AA-
Short-term corporate credit rating	A-1+

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