

Jan 30, 2012

R&I Affirms AA, Stable: Japan Real Estate Investment Corp.

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

ISSUER: Japan Real Estate Investment Corp.
Issuer Rating: AA, Affirmed
Rating Outlook: Stable

RATIONALE:

Japan Real Estate Investment Corp. (JRE) is a real estate investment trust (J-REIT) that was listed in September 2001, specializing in investments in office buildings. Its sponsors are Mitsubishi Estate Co., Ltd., The Dai-ichi Life Insurance Co., Ltd. and Mitsui & Co., Ltd. Mitsubishi Estate is the largest sponsor among them.

JRE has created a quality portfolio through investments in competitive large office buildings mainly located in central Tokyo. The ratio of properties located in the central three wards of Tokyo is as high as 57.3% of the total on an acquisition value basis. Capitalizing on strong ties with sponsors and its own network established through the past transactions, the REIT is making steady external growth. With its asset size expanding to over 710 billion yen as of end-December 2011, JRE maintains one of the strongest business bases in the J-REIT industry. In November 2011, JRE acquired Akasaka Park Building for 60.8 billion yen from its sponsor Mitsubishi Estate. This building is one of the most premium properties in the Akasaka area. Its rarity value is high, and as a result, the REIT's portfolio has been further bolstered.

The occupancy rate of properties held by the REIT was 94.2% at end-November 2011, up 2.2 percentage points from a year earlier, showing a recovery trend. Since contract rents are still higher than market rents to some extent, downward adjustments to unit rent prices as a result of rent revisions or changes in tenants are expected to continue. The NOI yield has declined to the mid 4-5 range. R&I will continue to pay close attention to trends in earnings recovery.

It seems that the current LTV (Interest-bearing debts/Total assets) has risen to the mid 40-50% range. This is because the acquisition of Akasaka Park Building was financed through loans, instead of raising capital through a public offering, which JRE initially considered but gave up in view of market conditions. Nevertheless, the REIT maintains a conservative leverage management policy with the target set at the 30% level. It has clarified its intention to lower the LTV to around 40% as early as possible through shelf registration for investment units issuance (upper limit: 40.7 billion yen), among others. Given that JRE has so far worked to manage its debt ratio by means of capital increases through six public offerings, the possibility of its debt-equity structure deteriorating seriously is limited. Although the term-end appraisal value is falling, the pace of decline is moderating. It still exceeds the book value by 1.9% as of end-September 2011.

JRE's loans are mostly long-term fixed-rate loans with an average remaining term to maturity of 3.63 years as of end-September 2011. The loans are all unsecured and unguaranteed with repayment dates staggered appropriately. JRE maintains good relationships with domestic financial institutions, mainly mega banks and trust banks, as evidenced by the fact that it borrows on relatively favorable terms from them. It also ensures sufficient liquidity with a committed line of credit totaling 43 billion yen (all unused as of January 2012).

The Rating Outlook is Stable. Although the weak office market is a cause of concern, its impact on cash flows is expected to be alleviated by, for example, the strong competitiveness of the REIT's properties, well-diversified portfolio and its asset manager and sponsors' high investment capabilities. Moreover, its conservative leverage management policy and strong financing ability will likely underpin the current high rating.

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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 Real Estate Investment Corp. (Sec. Code: 8952)
Issuer Rating
RATING: AA, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.4	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 29, 2005	Sep 29, 2025	JPY 10,000
RATING:	AA, Affirmed		

Unsec. Str. Bonds No.5	Issue Date	Maturity Date	Issue Amount (mn)
	Jun 18, 2007	Jun 18, 2012	JPY 10,000
RATING:	AA, Affirmed		

Unsec. Str. Bonds No.6	Issue Date	Maturity Date	Issue Amount (mn)
	Jun 18, 2007	Jun 18, 2014	JPY 15,000
RATING:	AA, Affirmed		

Unsec. Str. Bonds No.7	Issue Date	Maturity Date	Issue Amount (mn)
	Apr 23, 2010	Apr 23, 2015	JPY 10,000
RATING:	AA, Affirmed		

Unsec. Str. Bonds No.8	Issue Date	Maturity Date	Issue Amount (mn)
	Jul 23, 2010	Jul 23, 2015	JPY 10,000
RATING:	AA, Affirmed		

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