

Jan 28, 2013

## 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 56.6% 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. Its asset size expanded to over 780 billion yen as of January 2013 on an acquisition value basis. JRE maintains one of the strongest business bases in the J-REIT industry.

In recent years, JRE has stepped up investments in large, relatively new buildings. In this way, the REIT is working to maintain or lower the average age of assets in its portfolio even though a long time has passed since the launch of operations.

The occupancy rate of properties held by the REIT was 95.1% at end-November 2012, making a steady recovery after bottoming out around 2010. Given that contract rents are still somewhat higher than market rents, however, unit rent prices are likely to be subdued for some time. Since the REIT's properties are generally competitive and tenants are diversified, the occupancy rate is expected to trend stably. Even so, continued attention needs to be paid to the degree of recovery in rent levels.

JRE's LTV at present seems to be slightly higher than 40%. The REIT achieved external growth without raising the LTV through the public offering of investment units executed twice in 2012. Given its very conservative LTV target of 30%-40%, as well as good access to capital markets, the sound financial profile would continue to be maintained. The appraisal value as of end-September 2012 exceeded the book value, suggesting the portfolio is generating unrealized gains.

Debts are mostly long-term fixed-interest bearing debts, and the average remaining term to maturity is as long as more than four years. They are all unsecured and unguaranteed. Repayment dates are well-staggered through 2025. JRE maintains good relationships with domestic financial institutions, mainly mega banks and trust banks, as evidenced by relatively favorable loan terms. JRE also ensures reasonable liquidity with committed lines of credit totaling 43 billion yen (all unused as of January 2013).

The Rating Outlook is Stable. Although the weak office market remains a cause of concern, it will have no further impact on cash flow, given the strong competitiveness of the properties, the 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.

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>

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**R&I RATINGS:**

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

<b>Unsec. Str. Bonds No.4</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Sep 29, 2005	Sep 29, 2025	JPY 10,000

**RATING:** AA, Affirmed

<b>Unsec. Str. Bonds No.6</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Jun 18, 2007	Jun 18, 2014	JPY 15,000

**RATING:** AA, Affirmed

<b>Unsec. Str. Bonds No.7</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Apr 23, 2010	Apr 23, 2015	JPY 10,000

**RATING:** AA, Affirmed

<b>Unsec. Str. Bonds No.8</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Jul 23, 2010	Jul 23, 2015	JPY 10,000

**RATING:** AA, Affirmed