

Jan 31, 2014

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. It specializes 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 55.8% of the total on an acquisition value basis (as of September 2013). The REIT has several quality buildings such as Kitanomaru Square, Shiodome Building and Akasaka Park Building.

Capitalizing on its sponsors' strong pipelines, JRE has achieved external growth steadily. In January 2014, it revealed the acquisition of Queen's Tower A, a large building located in Yokohama. The asset size expanded to a little over 810 billion yen on an acquisition value basis. JRE thus maintains a business base with the top-class strength in the J-REIT industry.

While focusing on investments in relatively new properties, JRE transferred Nippon Brunswick Building (building portion) whose age is old to the sponsor. As a result, the average building age stood at 15.4 years (as of September 2013), which is a favorable level for a REIT specializing in office buildings.

The occupancy rate of properties held by the REIT has been high at 95-96%. The rent level has basically stopped falling. Since JRE has many competitive properties, a certain level of earning recovery can be expected if the rental market in central Tokyo continues to improve.

JRE's LTV ratio stays at a low level of 41.3% as of September 2013. The REIT has set a very conservative target of controlling the ratio at 30-40%. Given these factors, coupled with its good access to the capital markets, the financial profile will be kept sound in the future. Thanks to improvements in appraisal value, among other reasons, unrealized gains are expanding.

Debts are mostly long-term fixed-interest rate borrowings, and the average remaining term to maturity is as long as 4.2 years (as of September 2013), with due dates staggered sufficiently through 2025. JRE obtains loans from domestic financial institutions centering on mega banks and trust banks at relatively low costs. The REIT thus maintains favorable relationships with them. With committed lines of credit totaling 43 billion yen, it ensures liquidity.

The Rating Outlook is Stable. Given that the occupancy rate is trending at high levels, the tendency of earnings decline, which continued for a long time, is coming to an end. In addition to the strong business base, JRE's conservative leverage management policy and strong funding capacity may 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>

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan <http://www.r-i.co.jp>

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R&I RATINGS:

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

Unsec. Str. Bonds No.4	Issue Date Sep 29, 2005	Maturity Date Sep 29, 2025	Issue Amount (mn) JPY 10,000
RATING:	AA, Affirmed		
Unsec. Str. Bonds No.6	Issue Date Jun 18, 2007	Maturity Date Jun 18, 2014	Issue Amount (mn) JPY 15,000
RATING:	AA, Affirmed		
Unsec. Str. Bonds No.7	Issue Date Apr 23, 2010	Maturity Date Apr 23, 2015	Issue Amount (mn) JPY 10,000
RATING:	AA, Affirmed		
Unsec. Str. Bonds No.8	Issue Date Jul 23, 2010	Maturity Date Jul 23, 2015	Issue Amount (mn) JPY 10,000
RATING:	AA, Affirmed		
Unsec. Str. Bonds No.9	Issue Date Aug 30, 2013	Maturity Date Aug 30, 2018	Issue Amount (mn) JPY 10,000
RATING:	AA, Affirmed		

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