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Press Release

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S&P Revises Outlook On Japan Real Estate Investment Corp. To Positive

Tokyo, April 6, 2007 – Standard & Poor's Ratings Services today revised the outlook on its long-term rating on Japan Real Estate Investment Corp. (JRE) to positive from stable. At the same time, Standard & Poor's affirmed it 'A+' long-term and 'A-1' short-term credit and unsecured debt ratings on the company.

The outlook revision reflects JRE's enhanced business base, achieved via improvements in its portfolio quality and cash flow stability, and via expansion of its asset portfolio. It also reflects its conservative operations, such as maintaining appropriate leverage control as it pursues external growth, and its enhanced financial flexibility, achieved by making all of its borrowings unsecured, as well as by securing various funding methods and strong liquidity.

JRE boasts the second largest asset portfolio size among listed Japan real estate investment trusts (J-REITs), with a strong business position as well as good brand recognition. The credit quality of its sponsors has also been improving: Mitsubishi Estate Co. Ltd. (A/Stable/A-1); Tokio Marine & Nichido Fire Insurance Co. Ltd. (AA-/Positive/A-1+); Dai-ichi Mutual Life Insurance Co. (A/Positive/--); and Mitsui & Co. Ltd. (A/Stable/A-1). JRE owns a portfolio of well-maintained office buildings with high occupancy rates that generate stable cash flow. JRE's financial profile is solid.

As of the end of March 2007, JRE owned a portfolio of 50 office properties throughout Japan worth ¥441.3 billion, based on purchase price. In addition, JRE owns ¥1.27 billion in preferred securities issued by Harumi Front Tokutei Mokuteki Kaisha. In 2006, JRE made investments totaling ¥104.3 billion, including the ¥81.56 billion acquisition of Kitanomaru Square Building, the largest property in its portfolio, as well as the ¥10.7 billion acquisition of additional ownership in Sanno Grand Building. On the other hand, JRE sold four smaller properties with limited upside earnings potential, including JAL Sales Building. In March 2007, JRE effectively exchanged its third-largest property, Mitsubishi Sogo Kenkyujo Building (sales price of about ¥41.9 billion), for the Mitsubishi UFJ Trust and Banking Corp. Headquarters Building (purchase price of about ¥44.7 billion). JRE used its close ties with sponsors to conduct many of these transactions, which boosted the quality and stability of its portfolio. Although there is a degree of asset concentration risk in the portfolio, with the largest property, Kitanomaru Square Building, accounting for about 18.5% of the entire portfolio, the property's scarcity value in terms of location, excellent specifications, and stable cash flow based on long-term leases mitigate this risk. Asset concentration is expected to decline moderately as the company acquires more properties. The company's portfolio is geographically diverse, and its average occupancy rate stood at 98.0% as of December 2006, providing stable cash flow.

JRE's property portfolio exceeds ¥400 billion, and is expected to grow at a moderate pace as the company pursues more selective property acquisitions amid a severe investing environment. JRE plans to focus on internal growth strategies, such as increasing the rent or value of existing properties. Under JRE's financial policy, the company aims to maintain the ratio of debt to total assets between 30% and 40%. As JRE's portfolio asset size has reached a certain magnitude, leverage is likely to fluctuate less. JRE has issued additional equity four times since its listing, and Standard & Poor's thus expects it to issue equity in a timely manner, maintaining the leverage level within the conservative range of its financial policy.

For the 10th fiscal period, which ended in September 2006, JRE had total revenue of about ¥15.6 billion, net income of about ¥6.0 billion, and a debt-to-capital ratio (interest-bearing debt/(interest-bearing debt + unitholders' capital) according to Standard & Poor's definition) of about 49.4%. Due to the company's equity issue in October 2006, the debt-to-capital ratio decreased to the low-30% range. As of December 2006, long-term fixed loans comprised 100% of the company's total debt, and the maturities are diversified through 2025. JRE's cash flows are relatively stable, and in the 10th fiscal period, the company recorded an EBITDA interest coverage ratio of about 9x, based on the period's attractive financing costs. While the ratio of FFO to debt stood at about 8.0%, it is expected to recover to around 13% in the11th fiscal period and going forward. The company's liquidity is relatively sound, with the coverage ratio for total interest and dividend payments standing at about 1.3x. Its cash balance as of September 2006 was about ¥21.1 billion, a level sufficient to cover immediate operating expenses (including security deposit liabilities). The company maintains ample liquidity at hand, supported by ¥25 billion worth of unused and committed credit lines and good relationships with a number of creditor banks. JRE's financial flexibility has improved, given that all of its current interest-bearing debts are unsecured due to the full repayment of remaining secured borrowings in 2006.

The outlook is positive. JRE is expected to maintain stable income, based on its high-quality assets and its close ties with sponsors. To achieve a rating upgrade, as JRE focuses on internal growth, the company would be required to strengthen its profitability by establishing a diversified and stable portfolio based on a solid business base, as well as improve its financial profile. The latter would include improvements to its capital structure and its cash flow protection under more conservative leverage control in line with its financial policy.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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