

Jan 30, 2015

## 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. Two companies, Mitsubishi Estate Co., Ltd. and Mitsui & Co., Ltd., are its sponsors.

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 54.7% of the total on an acquisition value basis (as of September 2014). The REIT has a number of prime buildings such as Kitanomaru Square, Shiodome Building and Akasaka Park Building.

In 2014, JRE acquired Otemachi Financial City North Tower and Shinjuku Eastside Square from the sponsor group. They are both state-of-the-art, large, downtown buildings and expected to contribute to further enhancement of the portfolio. The asset size expanded to more than 860 billion yen on an acquisition value basis. JRE thus maintains a business base with the top-class strength in the J-REIT industry.

The occupancy rate of properties held by the REIT has reached a high level of above 97%. While its rent level has remained almost unchanged, an upward trend in market rents is becoming more visible. The NOI yield, which has been somewhat low due to the impact of a downturn in the office rental market for many years, is expected to recover, albeit moderately.

JRE's LTV ratio stays at a low level of 39.8% as of September 2014. 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 likely remain sound. 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 3.9 years (as of November 2014), with due dates staggered sufficiently. Given that JRE obtains loans from domestic financial institutions centering on mega banks and trust banks at relatively low costs, its fund-raising ability is high. With committed lines of credit totaling 43 billion yen, it ensures sufficient liquidity.

In September 2014, The Dai-ichi Life Insurance Co., Ltd. stepped down from its position as sponsor. However, since JRE can continue to expect strong support from main sponsor Mitsubishi Estate, there will be no particular impact on the rating, in R&I's view.

The Rating Outlook is Stable. As the occupancy rate has been high, the earnings environment has been improving appreciably. The acquisition of state-of-the-art properties from the sponsor group is also a positive factor. The REIT's conservative leverage management policy and high fund-raising ability as well as its strong business base 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&amp;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.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

<b>Unsec. Str. Bonds No.9</b>	<b>Issue Date</b>	<b>Maturity Date</b>	<b>Issue Amount (mn)</b>
	Aug 30, 2013	Aug 30, 2018	JPY 10,000

**RATING:** AA, Affirmed