Rating Action: Japan Real Estate Investment Corporation

Moody's downgrades JRE's rating; outlook stable

Tokyo, April 21, 2009 -- Moody's Investors Service has downgraded to A1 from Aa3 the issuer and senior unsecured long-term debt ratings of the Japan Real Estate Investment Corporation ("JRE"). The ratings had been under review for possible downgrade. The ratings outlook is stable. This concludes the review initiated on January 15, 2009.

The downgrade reflects Moody's concerns that JRE's financial flexibility may be stressed by tightening funding conditions and the stagnant equity market, which have worsened the funding environment for the J-REIT sector.

The stable outlook reflects Moody's view that, by maintaining its already conservative debt management, JRE can manage any further adverse effects on its credit stemming from the deterioration in the business environment.

Financial institutions are growing increasingly reluctant to extend loans to J-REITs, which has led to rising borrowing costs and shorter borrowing terms for most of these companies. Moody's is concerned that JRE's financial flexibility may be stressed because of ever higher borrowing costs, and also that JRE has taken on short-term loans to purchase property. However, JRE's debt management is conservative, such that long-term debt represents approximately 80% of its total debt and borrowing terms are long for the J-REIT sector.

JRE's ratio of debt to total assets (excluding tenants' deposits) is roughly 39%, which is high relative to its historical leverage. JRE's policy is to keep the ratio in the 30%-40% range. Because a J-REIT's ability to manage leverage generally depends on the equity markets, JRE's ability to manage its debt may be an issue. However, JRE has traditionally managed its debt more conservatively than others in the sector, and its share price, as indicated by PBR (price to book value ratio), is higher than that of many other listed J-REITs, which in part mitigates this concern.

Furthermore, its JPY 25 billion commitment line mitigates concerns about its near-term liquidity management.

JRE's portfolio, focusing on office buildings, is valued at more than JPY 560 billion (based on acquisition prices). In cooperation with Mitsubishi Estate Co., Ltd. (one of JRE's sponsors) and other sponsors, JRE recently acquired the headquarters of Mitsubishi UFJ Trust and Banking Corporation, as well as MM Park and Shiodome Buildings. Thus the quality of portfolio has improved. Moody's believes that any adverse impact on JRE's near-term cash flows will be limited, because (1) the portfolio's properties are located mainly in the Tokyo metropolitan area, which attracts tenants, (2) the large number of tenants contributes to portfolio diversity, and (3) the average rent of many properties is conservative compared to the market rate.

Moody's previous rating action on JRE took place on January 15, 2009, when the agency initiated a review of its issuer and senior unsecured long-term debt ratings of Aa3 for a possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report, "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moodys.com.

Japan Real Estate Investment Corporation is a J-REIT and focuses on investing in and managing office buildings. Its operating revenue for the fiscal half-year that ended in September 2008 was approximately JPY 19.8 billion.

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