



Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Assigns 'A-' Rating to Japan Prime Realty Investment Corp.'s Proposed ¥20 Billion Senior Unsecured J-REIT Bonds

Tokyo, Oct. 21, 2004 – Standard & Poor's Ratings Services said today that it had assigned its 'A-' rating to Japan Prime Realty Investment Corp.'s (JPR) proposed ¥10 billion fourth senior unsecured note due November 2009, ¥5 billion fifth senior unsecured note due November 2011, and ¥5 billion sixth senior unsecured note due November 2014. At the same time, the 'A-' long-term and 'A-2' short-term corporate credit ratings on JPR as well as 'A-' rating to its existing J-REIT bonds were affirmed. The outlook on the long-term rating is stable.

The ratings reflect JPR's above-average business position and relatively conservative financial profile. The company currently ranks within the top-tier group of Japanese real estate investment trust funds (J-REITs). It owns a high-quality portfolio of office and retail properties, and its sponsors have strong real estate expertise in Japan. JPR has a conservative capital structure, and solid coverage measures supported by above-average profitability.

These strengths are partly offset by concerns regarding the unseasoned market in which JPR operates, as well as the company's relatively aggressive growth strategy, and tenant concentration risk in JPR's portfolio. In addition, the company's strategy of dividing its investments between office properties (80%) and retail properties (20%) may increase the complexity of managing the portfolio, especially given the higher operational risks typical for retail properties. However these concerns are offset to some degree by the limited proportion of retail properties within the portfolio, and by the diversification benefits expected from the presence of both office and retail properties. The company's current retail properties are well located and have a high sales volume, which further mitigates these subsector concerns.

As of today, JPR owns 40 properties, of which 35 are office buildings and five are retail properties. In October 2004, JPR announced the purchase of BYGS Shinjuku Building (located in Tokyo) for ¥2.9 billion. Standard & Poor's expects that JPR will continue to accumulate portfolio assets and achieve its ¥300 billion external growth target by the end of 2006.

As of June 2006, JPR's debt-to-capital ratio (leverage) was 46%. After acquisition of additional assets funded by debt financing, it is estimated that the leverage will increase slightly above the 50% level in December 2004. However Standard & Poor's expects that JPR will continue to maintain a conservative capital structure, with its debt-to-capital ratio averaging between 35% and the upper 40% range.

JPR's financial flexibility has improved reflecting its increased proportion of unsecured borrowings against secured borrowings. Currently the proportion of JPR's portfolio net operating income (NOI) that is encumbered by secured borrowing is 39.5% (modestly below Standard & Poor's 50% threshold for rating unsecured debt, one notch below the corporate credit rating). The company appears committed to pursuing an unsecured borrowing strategy, and has the ability to further unencumber its portfolio through the acquisition of additional unencumbered properties. Standard & Poor's expects JPR's use of secured borrowings to be moderate, and encumbered NOI to remain below 50% of total NOI. As a result, Standard & Poor's continues to make no distinction between the corporate credit rating and the senior unsecured debt ratings at this time.

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

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