



Rating Action: Japan Prime Realty Investment Corporation

MOODY'S ASSIGNS A3 ISSUER RATING TO JAPAN PRIME REALTY INVESTMENT CORPORATION

Tokyo, January 23, 2004 -- Moody's Investor Service announced today it had assigned an issuer rating of A3 to Japan Prime Realty Investment Corporation (JPR) and its outlook is stable.

The A3 rating reflects JPR's structural features as a J-REIT, including its limited business scope, reasonably conservative financial policy, high debt service coverage ratio (DSCR), cash flow stability deriving from its portfolio, and expected sourcing and management abilities. Moody's took a hybrid approach - between structured and fundamental - on the rating, and which involved static analysis of its portfolio and capital structure as well as fundamental analysis on future investment policy, financial policy as well as its management skills.

These positive factors are partially offset by the uncertainty regarding its de-levering strategy during the fund's growth phase, the slightly high secured debt ratio, concentration of its rent income in a few tenants and the slightly high ratio exhibited by non-fee-simple assets within the portfolio. However, those concerns are mitigated by JPR's discipline over investment eligibility criteria, its integrated asset management policy and procedures, the supports by its sponsors in supplying professionals, and the increase in the fee-simple assets ratio within its portfolio through expected acquisitions in the near future. The medium-term targets for these acquisitions comprise 200 billion yen by 2004 and 300 billion yen by 2006.

In its current portfolio, JPR owns 32 properties and Moody's evaluated it at a value of 126.7 billion yen. With regard to diversification, the top 10 properties represent 64% of the portfolio's value. Based on Moody's value, 72% of the portfolio comprises office buildings and 28% retail properties. Furthermore, 52% of the portfolio is located in Tokyo, 7% in the Tokyo metropolitan area, and 41% in other major cities. From the long-term point of view, JPR seeks to construct the portfolio along the lines of 80% office buildings and 20% retail properties, while geographically, 60% would be in Tokyo or the Tokyo metropolitan area, and 40% in other major cities. Moody's assumes that the current asset allocation ratios are basically in line with JPR's investment policy. With regard to retail properties, Moody's assumes that JPR would invest mainly in quality retail properties in CBDs. Moody's believes that this mix of office buildings and retail properties could help stabilize underlying cash flows. The portfolio's capex is expected to be covered by depreciation over the next 10 years. Moody's will carefully monitor its investment strategy, risk/return profile and portfolio diversity.

As for financials, JPR declares that it would control its average leverage, keeping it between 35% and 50%, and which will result in a strong DSCR, even accounting for the risk of any interest rate spike. The de-levering - after acquisitions - will be accomplished mainly through public offerings. JPR successfully issued equity of about 32 billion yen in July 2003, and it is expected to resort to this same kind of de-levering operation several times in the future.

Based on our assumptions for the portfolio's expected return - which would be in accordance with JPR's investment strategy - Moody's employed scenario analysis to review JPR's financial indices. Here we assumed that the state of these indices would depend mainly on leverage and interest rate moves. In the base case (35-45 Loan to Moody's Value [LTV] at debt cost of less than 3%) and where the de-levering operation during the growth phase would be successfully managed, DSCR would be 5.1 or higher. Even in a stress case (60 LTV and debt cost of 6%) - and where the de-levering operation would not work and a high level of leverage would be locked - DSCR would be no less than 1.9. Based on JPR's short-term financial strategy, the secured loan-to-total debt ratio would range between 30% and 40%. However, Moody's assumes that the impact of the ratio on JPR's financial flexibility would be limited due to its expectation that the ratio will go down from the mid-long term perspective, and its strategy of reasonably conservative leverage. Moody's expects JPR to maintain reasonable financial flexibility in its refinancing and acquisition financing.

JPR is a listed Japanese Real Estate Investment Trust (June 2002), which focuses on investing and managing office buildings and retail properties. Tokyo Realty Investment Management, Inc. (TRIM) is the asset management company, specially established for JPR, and sponsored by Tokyo Tatemono Co. Ltd., Meiji Yasuda Life Insurance Company (Baa2), Taisei Corporation (Ba1), Yasuda Real Estate Co., Ltd. and Sampo Japan Insurance Inc.(Aa3). Each sponsor holds 26%, 24%, 20%, 20% and 10% of TRIM respectively.

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