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Press Release

Structured Finance Ratings & Research

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S&P: Outlook On Japan Prime Realty J-REIT Rating To Positive; Corporate Ratings Affirmed At 'A-/A-2'

Tokyo, March 16, 2007 – Standard & Poor's Ratings Services today revised to positive from stable the outlook on its 'A-' long-term corporate credit rating on Japan Prime Realty Investment Corp. (JPR). At the same time, Standard & Poor's affirmed its 'A-/A-2' corporate credit ratings and its 'A-' senior unsecured debt ratings on the company. The outlook revision is due to the expansion and increased diversification of the company's portfolio, which has mitigated tenant and property concentration; the moderately conservative and stable operations achieved by the company through steady external growth and appropriate control of its leverage; and the company's improved financial flexibility, thanks to a decrease in the percentage of secured debt.

JPR holds a leading position in the Japan real estate investment trusts (J-REITs) market. The credit quality of JPR's sponsors has been improving. The company's sponsors are Tokyo Tatemono Co. Ltd. (NR), Meiji Yasuda Life Insurance Co. (A-/Positive/A-1), Taisei Corp. (BB+/Stable/--), Sompo Japan Insurance Inc. (AA-/Stable/--), and Yasuda Real Estate Co. Ltd. (NR). Despite the severe environment for real estate acquisitions, JPR has acquired property steadily through collaboration with its sponsors, mainly Tokyo Tatemono and Taisei Corp. JPR's portfolio produces stable cash flows as it is comprised of well-maintained office and retail properties that have high occupancy rates. The company's financial profile is relatively sound.

As of the end of the company's 10th fiscal period (ended Dec. 31, 2006), JPR held in its property portfolio 34 office buildings throughout Japan, plus 12 retail properties, equivalent to a total purchase price of about ¥222.5 billion. In addition to these properties, the company holds preferred stock in Kawasaki Dice TMK, equivalent to about ¥1.55 billion. Furthermore, JPR acquired additional ownership in Tachikawa Business Center Building in February 2007 for ¥2.3 billion, and acquired Shinjuku Sanchome East Building in March 2007 for about ¥540 million. The company also plans to acquire the Musashi Urawa Shopping Square and the Rise Arena Building. On the other hand, JPR plans to sell the Tsurumi fuga 1 building and JPR Takamatsu Building in April 2007. After selling the Tsurumi fuga 1 building, the company's dependence on its largest tenant in terms of total rental revenues, Seiyu Ltd. (NR), will have decreased further from 8.6% as of Dec. 31, 2006. The move should thus mitigate concerns over concentration centering on its largest tenants. Thus far, JPR has sold six other properties. The company is focusing on areas with investment significance, and on improving the quality of its portfolio by implementing a "value up" strategy and replacing its assets. JPR has been diversifying its portfolio, with the top four properties making up only 24% of the total value of the portfolio as of Dec. 31, 2006, and the total number of tenants in the portfolio having expanded to 479 from the 344 seen when JPR was first assigned a rating. Geographically, the company has been investing in line with its investment policies. Occupancy rates have grown solidly since the company began its operations, and are currently high at 98.6%, thereby contributing to stable cash flows for JPR. Moreover, JPR is tightening its compliance system under the advice of its accounting firm, a factor thought to be contributing to the stability of the company's operations.

Since Standard & Poor's assigned its first rating to JPR, the company has pursued a comparatively moderate pace of external growth, which stood at about 16% from the first assignment to Dec. 31, 2006. Although the company was unable to meet its external growth target of ¥300 billion in asset size by Dec. 31, 2006, due to the severe environment for investing in property, JPR has asserted that it now intends to achieve its targets at a steady pace without setting specific timeframes. The company's financial policy lists a debt leverage ratio target in the 35% to 50% range. As the company has a track record of investment growth that spans three equity issues since listing on the Tokyo Stock Exchange, Standard & Poor's expects JPR to maintain its debt leverage ratio at a conservative level in the low-40% range, as a normal operational base with low fluctuation, under sound leverage control, even as it pursues external growth.

As of December 2006, an investment breakdown of JPR's portfolio shows that office buildings account for 65.4%,, and retail properties account for 34.6%, with the percentage of retail properties on the rise. Investment in retail properties can be more complicated than investment in office buildings, and can require a higher level of portfolio management. Despite this, there are no particular concerns at present, given that JPR invests selectively in retail properties that are in good locations. Nevertheless, Standard & Poor's will continue to monitor the composition of the company's portfolio closely, as the company has a comparatively high percentage of properties in which it does not have full ownership.

As of December 2006, JPR had total revenue of about ¥9.1 billion, net income of about ¥3.6 billion, and a debt-to-capital ratio (interest-bearing debt/(interest-bearing debt + unitholders' capital) according to Standard & Poor's definition) of about 47.9%. Due to the company's equity issue in February 2007, the debt-to-capital ratio decreased to the mid-30% level. As of February 2007, long-term fixed loans comprised about 80% (not including long-term fixed loans and senior unsecured bonds that will be repaid within one year) of the company's total debt, and the maturities are diversified through 2026 (including 20-year senior unsecured bonds due 2026). Furthermore, repayment amounts per fiscal year are kept within a certain level. JPR's cash flows are relatively stable, and the company recorded an EBITDA interest coverage ratio of about 8.8x, a ratio of FFO to debt of about 9.5%, and a coverage ratio (net cash flow to interest expense plus dividends) of about 1.4x as of December 2006. The balance of JPR's cash and deposits is at a level that amply covers its operating costs. The company has secured liquidity at hand to apply to its debt repayments, with ¥20 billion in unused commitment lines and good relationships with 20 financial institutions. JPR's financial flexibility is increasing, given that secured debt comprised about 15% of its total borrowings as of Feb. 28, 2007, while the rest of its loans are unsecured.

The outlook is positive. JPR is expected to stably increase its income through steady external growth, as it has close ties with its sponsors, and to pursue internal growth through steady, modest rental rate increases. In terms of future rating upgrades, as the company expands its portfolio, Standard & Poor's will examine whether the company can further improve its financial profile, including its capital structure and its capacity to cover future interest rate hikes, as it controls leverage at an conservative level in the low-40% range. The leverage level, as a normal operational base with low fluctuation, is set by taking into consideration both portfolio size and asset types.

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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