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Rating Assigned To Japan Prime Realty Unsecured Bond Series 12

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OVERVIEW
- Although business conditions remain difficult, JPR's portfolio has exhibited stable performance.
- We expect JPR to generate stable income, while maintaining a relatively high-quality asset portfolio.
- We are assigning our 'A' rating to JPR's proposed series 12 unsecured bond. At the same time, we are affirming our long-term and short-term corporate credit ratings on JPR. The outlook on the long-term and short-term ratings is stable.

TOKYO (Standard & Poor's) May 14, 2010--Standard & Poor's Ratings Services today assigned its 'A' rating to Japan Prime Realty Investment Corp.'s proposed ¥7.0 billion series 12 unsecured bond, due May 21, 2015. At the same time, we affirmed our 'A' long-term and 'A-1' short-term corporate credit ratings on JPR. The outlook on the long-term corporate credit rating remains stable. Our rating on the proposed series 12 bond and affirmations of the long-term and short-term credit ratings reflect JPR's relatively strong business position, and moderately conservative financial profile.

As of April 30, 2010, JPR owned a portfolio of 40 office buildings and 14 retail properties across Japan, with a total purchase price of about ¥316.4 billion. The company has a leading position in the Japanese real estate investment trust (J-REIT) market, backed by the real estate management and development capabilities of its five sponsors, including Tokyo Tatemono Co.

Ltd. (NR), Taisei Corp. (NR), and Meiji Yasuda Life Insurance Co. (A-/Positive/A-1).

As JPR is able to procure funds in a stable manner and has ample liquidity at hand, it has tapped into these strengths to make acquisitions. Specifically, since December 2009, the company has acquired four properties (total purchase price: about ¥21.6 billion), including Ryoshin Harajuku Building (Shibuya-ward, Tokyo; purchase price: ¥8.4 billion) and Tokyo Tatemono Kyobashi Building (Chuo-ward, Tokyo; about ¥5.3 billion). At the same time, the company has proceeded to replace some assets within its portfolio to increase the share of office buildings located in Tokyo. In particular, it sold JPR Nagoya Sakae Building (Nagoya, Aichi Prefecture; sales price: about ¥4.9 billion) in March 2010.

Although business conditions remain tough, mostly due to weakness in the office-leasing market and the retail industry, the portfolio's average occupancy rate remains high (96.4% as of Dec. 31, 2009), indicating that the properties generate relatively stable cash flows. Nevertheless, there are risk factors: (1) the market value of the company's portfolio has declined and led to an unrealized loss on the portfolio (the difference between the appraisal value and the book value of the portfolio), although the loss is small; (2) JPR has a relatively high ratio of properties that are not held under fee-simple ownership; and (3) the major tenants of two regional properties owned by JPR have notified the company that they intend to terminate their contracts.

JPR aims to maintain its debt-to-capital ratio at between 35% and 50%. The company's debt-to-capital ratio [total interest-bearing debt, including "hoshokin liabilities"/(total interest-bearing debt + total net assets), as defined by Standard & Poor's; "hoshokin" is a type of security deposit] stood at about 48.4% as of Dec. 31, 2009.

JPR, which launched a public equity offering in February 2010 for the first time in three years, has used part of the funds that it has raised to repay short-term debt. As a result, its leverage has declined slightly. Even so, given the company's subsequent acquisitions and the fact that it plans to acquire JPR Sendagaya Building (Shibuya-ward, Tokyo; purchase price: about ¥15.1 billion to ¥16.5 billion) in May 2010, we see a risk that the leverage ratio may rise again to 45%-50%. Standard & Poor's intends to monitor the company's financial strategy and portfolio growth strategy, as well as changes in its financial indicators, such as cash flow protection and profitability, which have weakened.

JPR's debt (including 20-year J-REIT bonds) maturities are appropriately diversified through 2026 (as of March 31, 2010). The average maturity of JPR's debt is about 3.7 years (as of March 31, 2010), suggesting that the company maintains a relatively conservative capital structure. In addition, long-term debt accounts for a relatively high 85% or so of total debt (as of March 31, 2010).

JPR's EBITDA interest coverage ratio and its ratio of funds from operations (FFO) to total debt had declined slightly to about 5.4x and about 8.1% respectively as of Dec. 31, 2009, indicating that the company's leverage ratio had risen and that its interest costs had increased as it extended its debt maturities. As of Dec. 31, 2009, JPR had a cash balance of about ¥28.3 billion and maintained ¥16.0 billion worth of unused credit lines, suggesting a high level of liquidity at hand compared with other J-REITs with similar levels of creditworthiness. JPR's long-term debt contracted in the early stages of its operations (about 6% of total debt at the end of March 2010) is secured, and the rest of JPR's debt is unsecured, indicating that the company maintains a certain degree of financial flexibility.

The outlook is stable. Standard & Poor's expects JPR to maintain generally stable cash flow, backed by its high-quality, and diversified portfolio, despite difficult business conditions. Since JPR's leverage ratio has risen slightly, we intend to focus on the company's property acquisitions and monitor improvements in the company's financial profile.

We see little likelihood of JPR's ratings being raised in the near future. In addition, we may lower the ratings if the company continues to face difficult business conditions and/or if we see little likelihood of the company's financial indicators improving in the medium term.

RELATED CRITERIA AND RESEARCH

"Rating Policy for Japanese Real Estate Investment Trusts," published May 9, 2001.

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>. Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com.