



## Rating Action: Moody's downgrades four J-REITs

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Tokyo, May 09, 2012 -- Moody's Japan K.K. has downgraded the issuer, senior unsecured long-term and short-term ratings of four Japanese real estate investment trusts (J-REITs).

These actions conclude the review for possible downgrade initiated on 20 February 2012.

Details follow:

Nomura Real Estate Office Fund Inc. (NOF):

Issuer and senior unsecured long term ratings, downgraded to A3 from A2, with a stable outlook and the short-term rating, downgraded to Prime-2 from Prime-1.

Japan Prime Realty Investment Corporation (JPR):

Issuer and senior unsecured long term ratings, downgraded to A3 from A2, with a negative outlook.

Global One Real Estate Investment Corporation (GOR):

Senior unsecured long term ratings, downgraded to Baa1 from A3, with a stable outlook.

Top REIT Inc. (TOP):

Issuer and senior unsecured long-term ratings, downgraded to Baa1 from A3, with a negative outlook.

### RATINGS RATIONALE

The downgrades reflect Moody's concerns that a soft leasing market and equity market conditions will affect the ability of issuers in managing their de-leveraging effectively, and delay the possibility of generating higher levels of free cash flow in the mid-term.

The net-debt-to-EBITDA ratios of these four companies have increased to levels higher than what is appropriate for their previous ratings. Moody's assumes that the ratios are not likely to recover in the next 12 to 24 months to levels that support their previous ratings due to decreased rental prices.

The occupancy rates of Tokyo's office leasing market remain sluggish due to Japan's recession. Additionally, new supplies of large-scale buildings will prevent any tightening. Moody's expects a delay in the bottoming out of leasing prices, even for high-quality buildings.

In addition, rental revenues from retail properties have been weak due to low personal consumption. This has led to rental discounts and cancellations of leasing agreements by retail tenants.

Therefore, the portfolios of four issuers, which consist of office buildings and/or retail outlets, face a tough environment.

JPR's net-debt-to-EBITDA ratio has significantly risen due to the debt-funded acquisition of a new asset in March 2012, though JPR's portfolio has avoided a large fall in its average occupancy rate due to its well-diversified portfolio and long-term lease agreements for retail properties.

JPR's loan-to-value (LTV) ratio has increased and is much higher than the level commensurate with its previous ratings, while the LTVs of other three companies have remained appropriate for their previous ratings.

NOF's portfolio size has been steady, because of its portfolio restructuring through property exchanges and its selective stance on asset acquisitions. The company has also gradually reduced its total debt size.

Its income from the leasing business has dropped in last three years, but will likely increase as it leases the vacant floors in its second-largest office building. However, it will not significantly reduce its net-debt-to-EBITDA ratio in next 12 months, due to rental discounts in other buildings.

GOR's cash flow gradually recovers through leasing activities in the last two years, after hitting the bottom upon the cancellation by its main tenant in its largest asset and the substantial downward adjustments on agreed rents in other assets. However, it will take some time before its net-debt-to-EBITDA ratio recovers to a level appropriate for its previous rating, although its rental revenue has been improving.

The improvement in TOP's rental revenue will be limited due to rent discounts, though the company also purchased a new asset in March 2012, which has in turn led to an elevated level of debt. Consequently, the balance between its debt and EBITDA will not significantly improve over next 12 months.

The ratings outlooks of NOF, GOR are stable and reflect their conservative financial management.

For example, NOF and GOR maintain the tenor of debt at more than five years, which is in conservative side compared with other J-REITs rated by Moody's.

The long-term-debt/total-debt ratios of NOF and GOR have stayed at high. Also, the fixed-interest-debt/long-term-debt ratios of both companies are more than 90%.

The liquidity coverage ratio of NOF, as measured by liquidity sources such as cash, cash equivalents, and committed bank lines, against debt maturing over the next 12 months, remains more than 100%.

GOR's liquidity coverage is close to 80%. But, it has maintained strong relationships with lenders including its sponsor which is a major Japanese bank, thereby alleviating any immediate concerns.

JPR's rating outlook is negative, and reflects a leverage level that is higher than that appropriate for its revised rating. However, Moody's thinks that the company may reduce its leverage to a level appropriate for its current rating due to its good track record.

Before it bought the new asset in March 2012, JPR had managed its leverage conservatively. It had good access to the equity market and four new share issuances since its initial public offering in 2002. In addition, its liquidity coverage ratio keeps more than 100%.

If the company reduces its leverage to the appropriate level in a few months, Moody's will consider this as a positive impact on its outlook.

On the other hand, should its leverage remain higher than the level appropriate for its current rating, Moody's will review JPR's rating for a possible downgrade.

The rating outlook for TOP is negative and reflects its low liquidity coverage of around 20%. TOP's liquidity is currently negatively affected by its lack of cash liquidity and/or committed bank lines, and portions of debt maturing in the next 12 months.

Upward rating pressure is possible if leverage decreases and rental prices increase, with the following metrics:

For NOF and JPR:

Net-debt-to-EBITDA of less than 8.0x, debt-to-gross assets less than 45%, and liquidity coverage of more than 100%.

For GOR and TOP:

Net-debt-to-EBITDA of less than 10.0x, debt-to-gross assets less than 45%, liquidity coverage of 100% or higher, prolonged tenor of debt, and a flattened debt repayment schedule.

On the other hand, factors that could lead to a downgrade include deterioration in portfolio cash flows, falling real estate prices, and higher financial leverage and liquidity, with the following metrics:

For NOF and JPR:

net-debt-to-EBITDA of more than 10.0x, and debt-to-gross asset of more than 50%.

For GOR and TOP:

Net-debt-to-EBITDA of more than 12.0x, debt-to-gross-assets greater than 50%, and failure to achieve liquidity coverage of 80% or more.

The principal methodology used in this rating was Moody's Global Rating Methodology for REITs and Other Commercial Property Firms published on 1 October 2010, and available on [www.moody's.co.jp](http://www.moody's.co.jp).

Nomura Real Estate Office Fund Inc, headquartered in Tokyo, is a J-REIT listed in December 2003 that invests in and manages office buildings and owned 48 properties and worth about JPY367.7 billion as of October 2011. Its operating revenue for the fiscal half-year ended October 2011 was JPY13.6 billion.

Japan Prime Realty Investment Corporation, headquartered in Tokyo, is a J-REIT listed in June 2002 that invests in and manages office buildings and retail properties and owned 57 properties worth about JPY345.0 billion as of December 2011. Its operating revenue for the fiscal half-year ended December 2011 was JPY11.8 billion.

Global One Real Estate Investment Corporation, headquartered in Tokyo, is a J-REIT listed in September 2003 that invests in and manages diversified types of real estate and owned 8 properties worth about JPY148.5 billion as of September 2011. Its operating revenue for the fiscal half-year ended September 2011 was JPY4.1 billion.

Top REIT Inc, headquartered in Tokyo, is a J-REIT listed in March 2006 that invests in, and manages office buildings, residences and retail properties and owned 17 properties worth about JPY177.4 billion as of October 2011. Its operating revenue for the fiscal half-year ended October 2011 was JPY5.8 billion.

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