

## Ratings On Japan Prime Realty Investment Kept On CreditWatch Negative

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OVERVIEW

- On March 5, 2012, we placed the ratings on JPR on CreditWatch negative. The rating actions followed JPR's announcement that it planned to acquire the Otemachi 1-6 Plan (tentative name) land with leasehold interest.
- This time, we kept the ratings on JPR on CreditWatch negative because, in our view, we need to ascertain the direction of the J-REIT's management policy and assess its progress in improving its financial standing.
- We will resolve the CreditWatch placement on JPR after reexamining its future management policy and progress in its financial standing.

TOKYO (Standard & Poor's) May 31, 2012--Standard & Poor's Ratings Services today said that it has kept its 'A' long-term corporate credit and unsecured debt ratings and its 'A-1' short-term credit rating on Japan Prime Realty Investment Corp. (JPR) on CreditWatch with negative implications.

On Feb. 29, 2012, JPR announced that it would acquire the Otemachi 1-6 Plan (tentative name; Chiyoda Ward, Tokyo; purchase price: ¥36.0 billion) land with leasehold interest ("sokochi"). JPR then acquired the Otemachi 1-6 Plan in March 2012. We therefore took the view that JPR's debt-to-capital ratio [interest-bearing debt including hoshokin liabilities/(interest-bearing debt including hoshokin liabilities + total net assets), as defined by Standard & Poor's] would rise. Accordingly, on March 5, 2012, we placed the long- and short-term corporate credit ratings and unsecured debt ratings on JPR on CreditWatch negative to reflect this view.

The property is located in Tokyo's central business district of Otemachi,

which is the leading office district in Japan. As such, the property benefits from its scarcity value, given this prime location. However, this property is land with leasehold interest in a high-rise office complex to be completed in April 2014. As such, because the Japanese REIT's (J-REIT) cash flow will partly rely on land rental revenue from the Otemachi 1-6 Plan, which is under construction, we believe the stability of JPR's portfolio may decline slightly.

JPR financed the purchase of the Otemachi 1-6 Plan entirely with interest-bearing debt. This raised the J-REIT's debt-to-capital ratio to about 53%, up about five percentage points from the level as of Dec. 31, 2011. In reviewing information on this acquisition following our placement of the ratings on JPR on CreditWatch negative on March 5, 2012, we confirmed that JPR undertook some measures to increase the likelihood that it would receive land rent payments in a timely manner until the completion of the office complex.

We today kept the ratings on JPR on CreditWatch negative because, in our view, we need to continue to both ascertain the direction of the J-REIT's management policy and assess its progress in improving its financial standing.

The Otemachi 1-6 Plan's yield is low, due to the property's scarcity value. As a result, we believe that JPR may require time to stabilize its overall portfolio yield while simultaneously improving its heightened debt-to-capital ratio.

We will resolve the CreditWatch placement on JPR after considering JPR's management policy, including its policy in terms of external growth, and the effects that the management policy could have on the J-REIT's profitability. We will also analyze the J-REIT's financial policy and operational strategies, and determine the likely pace and feasibility of improvement in JPR's financial standing. If we determine that JPR's financial standing is unlikely to improve in the short term, we may lower the ratings.

JPR has secured a leading position in the J-REIT market, backed by the real estate management and development capabilities of its sponsors, including Tokyo Tatemono Co. Ltd. (NR), Taisei Corp. (NR), and Meiji Yasuda Life Insurance Co. (A/Stable/A-1).

We see JPR's relatively strong market position and generally stable cash flows generated from its high-quality portfolio underpinning to an extent the J-REIT's credit quality for the time being. Therefore, any future downgrade is likely to be limited to only one notch.

#### RELATED CRITERIA AND RESEARCH

"Key Credit Factors: Global Criteria For Rating Real Estate Companies," June 21, 2011

"Principles Of Credit Ratings," Feb. 16, 2011

"Rating Policy For Japanese Real Estate Investment Trusts," May 9, 2001

#### RATINGS LIST

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Japan Prime Realty Investment Corp.	Rating
Corporate credit rating	A/Watch Neg/A-1
J-REIT bonds*	A/Watch Neg

\*The above 'A' rating on JPR's J-REIT bonds refers to its series three, six to nine, and 11 to 14 J-REIT bonds (¥51.5 billion in total).

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