

Ratings On Japan Prime Realty Investment Placed On CreditWatch Negative On Property Acquisition Plan

Primary Credit Analyst:

Yumi Oikawa, Tokyo (81) 3-4550-8775; yumi_oikawa@standardandpoors.com

Secondary Contact:

Roko Izawa, Tokyo (81) 3-4550-8674; roko_izawa@standardandpoors.com

OVERVIEW

- JPR has announced that it plans to acquire the Otemachi 1-6 Plan (tentative name) land with leasehold interest. This would be the largest property in JPR's portfolio and would raise the portfolio's concentration in its top asset.
- JPR's plan to finance the acquisition entirely with interest-bearing debt would raise its debt-to-capital ratio.
- We have placed the long- and short-term ratings on JPR on CreditWatch with negative implications.
- We will resolve the CreditWatch placement on JPR after reexamining its future operational strategies and financial standing.

TOKYO (Standard & Poor's) March 5, 2012--Standard & Poor's Ratings Services today said that it has placed its 'A' long-term corporate credit and debt ratings and its 'A-1' short-term credit rating on Japan Prime Realty Investment Corp. (JPR) on CreditWatch with negative implications. The rating actions follow the Japanese REIT's (J-REIT) recent announcement that it plans to acquire the Otemachi 1-6 Plan (tentative name; Chiyoda Ward, Tokyo; purchase price: ¥36.0 billion) land with leasehold interest ("sokochi").

The property, located in the central business district of Otemachi, Chiyoda Ward, benefits from its scarcity value in terms of its prime location. However, this property is land with leasehold interest in a high-rise office complex to be completed in April 2014. JPR has likely taken steps to help

stabilize the rental revenue from the land. However, because the J-REIT's cash flow will partly rely on land rental revenue from the Otemachi 1-6 Plan, we believe the stability of JPR's portfolio may decline slightly.

The property that JPR plans to acquire would account for about 9.4% of its portfolio. This would make it the largest asset in its portfolio and would raise the portfolio's concentration in its top asset.

In addition, the J-REIT plans to finance the purchase entirely with interest-bearing debt. This would raise its 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) to about 53%, up about five percentage points from the level as of Dec. 31, 2011. JPR's interest coverage ratios, which we regarded as a risk factor for its credit quality, would also likely deteriorate, in our opinion.

Because of the scarcity value of the property, the property yield is low. As a result, we believe that JPR would require time to stabilize its overall portfolio yield while simultaneously improving a heightened debt-to-capital ratio.

We will resolve the CreditWatch placement on JPR after analyzing the J-REIT's financial policy and operational strategies, and also determining the likely pace and feasibility of JPR's improving its financial standing. We intend to reexamine the measures JPR would take against risks from purchasing land with leasehold interest of a property under development, and take them into account in our analysis. 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). Its relatively strong market position and high-quality portfolio generate stable cash flow, underpinning the J-REIT's credit quality for the time being. Therefore, any downgrade may 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

Ratings Placed On CreditWatch Negative
Japan Prime Realty Investment Corp.

	To	From
Corporate credit rating	A/Watch Neg/A-1	A/Stable/A-1
J-REIT bonds*	A/Watch Neg	A

*The above 'A' rating on JPR's J-REIT bonds refers to its series three, six to

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nine, and 11 to 14 J-REIT bonds (¥51.5 billion in total). Series one, two, four, five, and 10 have been redeemed in full.

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