



Rating Action: Moody's changes Japan Prime Realty's rating outlook to stable; affirms A3

Global Credit Research - 04 Feb 2013

Tokyo, February 04, 2013 -- Moody's Japan K.K. has changed to stable from negative the rating outlook of Japan Prime Realty Investment Corporation (JPR).

At the same time, Moody's has also affirmed JPR's A3 issuer and senior unsecured long-term ratings.

RATINGS RATIONALE

The stable outlook reflects: (1) the decrease in JPR's leverage following the public offering of its shares; and (2) JPR's stable cash flow position, which is supported by its asset acquisitions and the diversity of its portfolio.

JPR's leverage -- measured by total debt/total assets -- decreased to 44% following a public offering of shares in July 2012, from 49% in June 2012. JPR has a track record of managing its leverage conservatively. Moreover, the company has good access to the equity market, underscored by its five share issuances since its listing in 2002.

Moody's expects JPR's cash flow to remain stable over the next 12 months based on its portfolio characteristics. JPR can also stabilize its income stream through asset acquisitions because it has good access to the equity market.

In addition, retail properties, which have long-term lease agreements, make up 24% of its portfolio. These properties have high average occupancy rates, with an average rate of 94% as of end-November 2012.

The stable performance of its retail portfolio will help offset the impact of the expected decline in rental revenue from office buildings. The occupancy rates in Tokyo's office-leasing market remain sluggish due to Japan's recession, while large-scale buildings developed in 2012 will continue to prevent any tightening.

Therefore, Moody's does not expect office-leasing prices to bottom out in the near term. While office buildings make up 76% of JPR's portfolio, this proportion is low compared to other Moody's-rated J-REITs that mainly invest in offices.

Moreover, in March 2012, the company purchased beneficial interests with a land leasehold of a new high-rise office complex under construction in central Tokyo. The ensuing revenue from the long-term land leasehold agreement will also mitigate the impact of the weakness in Tokyo's office-leasing market and support the company's cash flow.

The land is currently JPR's largest property and accounts for around 9% of its portfolio on a purchase-price basis.

If the profitability of JPR's portfolio improves and its leverage decreases further, then Moody's could upgrade its ratings. For example, if net-debt-to-EBITDA stays below 8.0x, debt-to-gross-assets remains at or around 45%, liquidity coverage is above 100%, the tenor of debt is lengthened, and the maturity of its debt is flattened, then JPR's rating could be upgraded.

Factors that could lead to a downgrade include: (1) deterioration in cash flows from its portfolio; (2) declining real estate prices; and (3) higher financial leverage. For example, JPR's rating would be downgraded if net-debt-to-EBITDA exceeds 10.0x and debt-to-gross-assets reaches 50%.

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

Japan Prime Realty Investment Corporation, headquartered in Tokyo, is a J-REIT that was listed in June 2002. It invests in, and manages, office buildings and retail properties. It owned 58 properties worth about JPY381.0 billion as of June 2012. Its operating revenue for the fiscal half-year ended June 2012 was JPY12.3 billion.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this rating action, and whose ratings may change as a result of this rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Credit ratings are Moody's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. Moody's defines credit risk as the risk that an entity may not meet its contractual, financial obligations as they come due and any estimated financial loss in the event of default. Credit ratings do not address any other risk, including but not limited to: liquidity risk, market value risk, or price volatility. Credit ratings do not constitute investment or financial advice, and credit ratings are not recommendations to purchase, sell, or hold particular securities. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such rating or other opinion or information is given or made by Moody's in any form or manner whatsoever. The credit risk of an issuer or its obligations is assessed based on information received from the issuer or from public sources. Moody's may change the rating when it deems necessary. Moody's may also withdraw the rating due to insufficient information, or for other reasons.

Moody's Japan K.K. is a credit rating agency registered with the Japan Financial Services Agency and its registration number is FSA Commissioner (Ratings) No. 2. The Financial Services Agency has not imposed any supervisory measures on Moody's Japan K.K. in the past year.

Please see ratings tab on the issuer/entity page on the Moody's website for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on the Moody's website for further information.

Please see the Credit Policy page on the Moody's website for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Takahiro Okubo
Vice President - Senior Analyst
Structured Finance Group
Moody's Japan K.K.
Atago Green Hills Mori Tower 20fl
2-5-1 Atago, Minato-ku
Tokyo 105-6220

Japan

JOURNALISTS: (03) 5408-4110

SUBSCRIBERS: (03) 5408-4100

Koji Kumamaru

MD - Structured Finance

Structured Finance Group

JOURNALISTS: (03) 5408-4110

SUBSCRIBERS: (03) 5408-4100

Releasing Office:

Moody's Japan K.K.

Atago Green Hills Mori Tower 20fl

2-5-1 Atago, Minato-ku

Tokyo 105-6220

Japan

JOURNALISTS: (03) 5408-4110

SUBSCRIBERS: (03) 5408-4100

The logo for Moody's, featuring the word "MOODY'S" in a blue, serif font with a stylized apostrophe.

Copyright 2013 Moody's Japan K.K., Moody's SF Japan K.K. and/or its licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ARE MOODY'S JAPAN K. K.'S ("MJKK") CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MJKK DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. CREDIT RATINGS DO NOT CONSTITUTE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS ARE NOT RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. CREDIT RATINGS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MJKK ISSUES ITS CREDIT RATINGS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information.

The ratings, financial reporting analysis, projections, and other observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. Each user of the information contained herein must make its own study and evaluation of each security it may consider purchasing, holding or selling. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of Moody's Corporation(MCO). MJKK is a credit rating agency registered with the Japan Financial Services Agency and its registration number is FSA Commissioner (Ratings) No. 2.

MJKK hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK have, prior to assignment of any rating, agreed to pay to MJKK for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MCO and MJKK also maintain policies and procedures to address the independence of MJKK's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MJKK and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Any publication into Australia of this document is by MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657, which holds Australian Financial Services License no. 336969. This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.