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Japan Prime Realty Investment Corp.'s Unsecured Bonds Series 13 And 14 Assigned 'A' Ratings

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TOKYO (Standard & Poor's) Oct. 18, 2011--Standard & Poor's Ratings Services today said that it has assigned its 'A' rating to Japan Prime Realty Investment Corp.'s (JPR; A/Stable/A-1) proposed ¥7.0 billion series 13 unsecured bond (coupon rate: 0.95%), due Oct. 25, 2016, and to its proposed ¥2.0 billion series 14 unsecured bond (coupon rate:1.34%), due Oct. 25, 2018. Our ratings on the proposed series 13 and series 14 bonds reflect JPR's relatively strong business position in the Japanese REIT (J-REIT) market, its well-diversified and high-quality property portfolio, as well as its high liquidity on hand and financial flexibility.

JPR has secured a relatively strong position in the J-REIT market, backed by the real estate management and development capabilities of its sponsors, which include Tokyo Tatemono Co. Ltd. (NR). As of Sept. 30, 2011, JPR owned a portfolio of 43 office buildings and 14 retail properties with a total purchase price of about ¥345 billion.

As JPR is able to procure funds in a steady manner and has ample liquidity on hand, it has tapped into these strengths to make acquisitions. In particular, the J-REIT acquired Ginza Sanwa Building (Chuo Ward, Tokyo; purchase price: ¥3.4 billion) in August 2011, showing that it is able to maintain moderate external growth. In addition, JPR is strengthening its financial base, and we regard this as a positive factor for the J-REIT's credit quality. Specifically, the J-REIT secured additional committed credit lines from July 2011 to October 2011, and as of July 8, 2011, JPR no longer had any secured borrowings from financial institutions outstanding.

On the other hand, we see risk factors that may affect JPR's credit quality: (1) JPR's profitability and interest coverage indicators remain weak amid severe business conditions; (2) it has a level of unrealized losses in its portfolio, indicating that the J-REIT's financial buffer has weakened, although the rate of increase in these losses has slowed; and (3) its debt-to-capital ratio is hovering at levels that are slightly high compared with the J-REIT's cruising level. However, it is our view that these risks are partially mitigated by: (1) some expected revenue support from newly acquired properties; (2) JPR's track record of controlling its debt level; and (3) its improving occupancy rates.

RELATED CRITERIA AND RESEARCH

"Key Credit Factors: Global Criteria For Rating Real Estate Companies," published June 21, 2011
"Principles Of Credit Ratings," published Feb. 16, 2011
"Rating Policy For Japanese Real Estate Investment Trusts," published May 9, 2001

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