STANDARD & POOR'S

Press Release

Structured Finance Ratings & Research

For immediate release

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S&P: Ratings On Japan Prime Realty Investment Corp. Affirmed; Outlook Stable

Tokyo, Dec. 28, 2005 – Standard & Poor's Ratings Services said today that it had affirmed its 'A-' long-term and 'A-2' short-term corporate credit rating on Japan Prime Realty Investment Corp. (JPR). The outlook on the long-term rating is stable.

The rating affirmation reflects JPR's strong business position, its sound financial profile and the highly conservative structure of Japanese real estate investment trust funds (J-REITs). The company owns a high-quality portfolio of office and retail properties, and its sponsors have strong real estate development and management expertise. JPR ranks within the top-tier group of J-REITs in terms of asset size and total market capitalization. As JPR plans to increase its asset size, its profitability may be affected by the acquisition price of new properties, rent levels, and occupancy ratios. However, Standard & Poor's considers that JPR will maintain a sound financial profile, underpinned by a conservative debt-to-capital structure, adequate profitability, and liquidity coverage.

JPR owns a portfolio of 42 properties, of which 35 are office buildings and seven are retail properties. Total appraisal value for the portfolio is ¥191.9 billion, and Standard & Poor's underwriting value amounts to ¥186.2 billion. During the fiscal period ending Dec. 31, 2005, JPR increased its portfolio, including the acquisitions of Tachikawa Business Center (¥0.88 billion), Housing Design Center Kobe (¥7.22 billion), and 10% of preferred securities issued by Kawasaki Dice Building Special Purpose Co. (¥1.55 billion). With the assets set to be acquired early next fiscal year, JPR's asset size based on acquisition price is projected to significantly increase to ¥211.7 billion; by 2.3x from the end of the first fiscal period at June 2002. Concentration on top tenants is also on a mitigating trend. The largest tenant, Seiyu Ltd. (N.R.), accounts for 9.3% based on total rents at the end of September 2005, down substantially from 18.3% at the end of June 2002.

With the support of its sponsors, including Taisei Corp. (BB+/Stable/--) and Tokyo Tatemono Co. Ltd. (N.R.), JPR plans to increase its portfolio size close to ¥300 billion by the end of December 2006, aiming to acquire properties with an emphasis on NOI (net operating income). Given intensifying competition over properties with other J-REITs and private funds, it will likely be difficult for the company to achieve around ¥80 billion in property acquisitions in a short period of time within the next year, while maintaining adequate profitability and a sound debt-to-capital structure. However, due to its emphasis on portfolio NOI, Standard & Poor's does not believe JPR is making investments solely to increase its portfolio volume.

Over the past few years, JPR has maintained a sound financial profile under a relatively conservative financial policy. Supported by a recovering trend in rent and occupancy ratios in the office building market in the Tokyo metropolitan area, JPR's profitability based on the current portfolio is expected to further improve. JPR's occupancy ratio was 95.4% at the end of June 2005, which is 3%-4% below the average of the other six rated J-REITs companies. However, JPR expects its occupancy ratio to improve to around 96% at the end of December 2005. On the other hand, JPR's profitability is relatively high, with ROA (ratio of EBITDA to total assets) at 5.1% and ROE (ratio of net profits to total investment) at 6.4% at the end of June 2005. Under its financial policy, JPR intends to maintain adequate leverage control through capital increases and debt, with its debt-to-capital ratio between 35% and 50%. Standard & Poor's expects that JPR will continue to expand its portfolio while maintaining this policy. At December 2005, the company had over ¥120 billion in committed fund raising capabilities, with a ¥100 billion shelf registration for investment corporation bonds by November 2007, and ¥20 billion in unused commitment lines.

The outlook on the long-term rating remains stable, reflecting the expectations that JPR will maintain a stable business franchise and conservative debt-to-capital structure by prioritizing a conservative property acquisition policy with an emphasis on NOI, despite the company's plan to continue substantial growth in asset size for the next one to two years.

An upgrade on the rating and upward revision of the outlook will depend on the company's ability to increase its portfolio size under adequate leverage control as well as maintain adequate profitability with an ROA at 4%-5% and ROE at 5%-6%, as well as to further diversify properties and tenants.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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