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

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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.moodys.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.

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