



# NEWS RELEASE

No.2009-C-917

Oct 9, 2009

## R&I Upgrades to BBB-, Stable: JRH

Rating and Investment Information, Inc. (R&I) has announced the following.

**ISSUER:** Japan Rental Housing Investments Inc. (Sec. Code: 8986)  
**Issuer Rating**

**R&I RATING: BBB- (Upgraded from (BB+); Removed from the Rating Monitor)**

**RATING OUTLOOK: Stable**

**Long-term Issue Rating**

**R&I RATING: BBB- (Upgraded from (BB); Removed from the Rating Monitor)**

### **RATIONALE:**

Japan Rental Housing Investments Inc. (JRH) is a REIT that invests in rental residential properties across Japan. Following the completion of large-scale refinancing deals in June 2009 and the announcement of capital increase through a private placement in August, R&I had placed the rating on the Rating Monitor with a view to upgrading.

In light of the worsened financing environment surrounding the REIT industry, JRH saw growing refinancing risks. In June, JRH refinanced a total of 29.5 billion yen in bank loans from The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other domestic financial institutions. Of which, 25.4 billion yen is long-term loans with the 2-3 year borrowing period. The June refinancing has protracted the borrowing period and diversified the due dates to a certain extent. With a capital increase of 6 billion yen and cash in hand, among others, R&I believes that JRH has secured funds for investment trust bond redemption, which had been a concern. The debt ratio is expected to fall to the 30% range after the redemption. Thanks to a series of the above measures, JRH's financial health is strengthened and near-term refinancing risks are erased.

Meanwhile, the situation of JRH's asset portfolio leaves scope for improvement. Although the latest occupancy rate of assets held by JRH slightly rose to 91.9% as of end-September 2009, JRH has seen slow recovery in occupancy rates, particularly of luxury condominiums located in central Tokyo whose occupancy rates are very susceptible to economic conditions and some rental residential properties located in regional cities. Compared to rival residential REITs, JRH has a high percentage of investments in apartments located in regional cities. The appraisal values of its assets as of the end of March 2009 (term-end) were more than 10% below the acquisition values.

JRH intends to return to a growth path, after it successfully stabilizes its financial base. However, because of the capital increases through private placements this time and in August 2008, investment units have been diluted significantly, resulting in a sharp decline in the level of a distribution per unit compared to other REITs'. This may constrain equity financing activities in the future and give negative effects on its efforts to materialize medium-to-long term growth strategies.

In consideration of the above factors, R&I has upgraded the Issuer Rating to BBB- and has removed it from the Rating Monitor. The Rating Outlook is Stable. By resuming asset acquisition activities, JRH plans to boost quality and profitability of its portfolio with the possibility to expand the fund size through mergers with other REITs. R&I will keep an eye on developments of such external growth strategies going forward.

Taking into account the Rating Outlook and the fact that JRH has already secured funds for bond redemption, the necessity to reflect the subordinate status in comparison with secured loans has receded. As such, the rating for the investment trust bonds is on par with the Issuer Rating.

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The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/st/methodology.html>

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

## R&I RATINGS:

**ISSUER:** Japan Rental Housing Investments Inc. (Sec. Code: 8986)  
**ISSUER RATING:** **BBB- (Upgraded from (BB+); Removed from the Rating Monitor)**  
**RATING OUTLOOK:** Stable

**ISSUE:** Preliminary Rating for the Shelf Registration (Bonds)  
Issue Amount: Yen 100,000 million (Shelf Amount)  
Issue Period: Two years from Nov 7, 2007

**R&I RATING:** **BBB- (Upgraded from (BB); Removed from the Rating Monitor)**

## LONG-TERM ISSUE RATING: Issue Date Redemption Issue Amount (mn)

Unsec. Str. Bonds No.1 Feb 27, 2007 Feb 26, 2010 Yen 3,800

Unsec. Str. Bonds No.2 Nov 19, 2007 Nov 19, 2009 Yen 4,000

**R&I RATING:** **BBB- (Upgraded from (BB); Removed from the Rating Monitor)**

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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