

Feb 02, 2016

R&I Upgrades to A, Stable, Removes from the Rating Monitor: Japan Rental Housing Investments Inc.

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

ISSUER: Japan Rental Housing Investments Inc.
Issuer Rating: A, Previously (A-)
Rating Outlook: Stable

RATIONALE:

Japan Rental Housing Investments Inc. (JRH) is a residential real estate investment trust (J-REIT) that invests in rental apartments nationwide. It merged with Prospect Reit Investment Corp. (PRI) in July 2010, and changed its main sponsor to Daiwa Securities Group Inc. in December 2015.

JRH has been steadily acquiring properties in recent years, expanding its asset size to approximately 220 billion yen. It maintains a high occupancy rate and stable earnings under excellent management. Stable operations will likely be continued by the management team of the current asset manager. Moreover, the change of the sponsor to the one with high creditworthiness and experience in managing REITs made the business base more robust and is expected to bring positive effects, especially on the funding front. Based on these factors, R&I has upgraded the Issuer Rating to A and removed it from the Rating Monitor.

JRH's properties are located in major cities across the nation, with properties outside of Tokyo's 23 wards accounting for 58%. In the past, relatively old, small properties accounted for a high proportion of the portfolio. After the merger with PRI, however, JRH worked to improve the portfolio through asset replacement. As of September 2015, the average acquisition cost was about 1.1 billion yen and the average age of building was about 12 years. JRH owns 200 apartment buildings, with more than 13,000 units available for rent. Both property and tenant mixes are diversified.

JRH has established a unique management structure, as exemplified by the introduction of the Daily Occupancy Forecasting System, and thereby has been able to manage a large number of properties efficiently and effectively. The occupancy rate stays high at around 98%, and the NOI yield is kept at 5.5-6.0%.

The LTV ratio was 49.5% as of September 2015. As a result of property acquisitions after that, the ratio has risen to around 51% at present, but the REIT plans not to raise the percentage substantially. The appraisal value of its properties exceeds the book value by around 9%, suggesting that unrecognized gains are increasing.

Under favorable relationships with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other lender financial institutions, funding conditions continue improving. Loan periods have been lengthened and costs have been reduced. Due dates have also been relatively staggered. Thanks to the change of the sponsor, further enhancement of fundraising capability can be expected, and risk that may materialize at a time of environment deterioration has been reduced, in R&I's view.

The Rating Outlook is Stable. JRH is expected to maintain and improve the portfolio quality. At the same time, its existing properties are projected to generate stable earnings basically. On the financial front, R&I assumes JRH will further strengthen its funding base by capitalizing on the creditworthiness of the new sponsor.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is 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/cfp/about/methodology/index.html>

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

Rating and Investment Information, Inc. Nihonbashi 1-chome Mitsui Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, <http://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

© Rating and Investment Information, Inc.

R&I RATINGS:**ISSUER:**

Japan Rental Housing Investments Inc. (Sec. Code: 8986)

Issuer Rating**RATING:**

A, Previously (A-)

RATING OUTLOOK:

Stable

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

Rating and Investment Information, Inc. Nihonbashi 1-chome Mitsui Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, <http://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

© Rating and Investment Information, Inc.