

Dec 16, 2013

R&I Upgrades to A-, Stable: 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 BBB+
Rating Outlook: Stable

RATIONALE:

Japan Rental Housing Investments Inc. (JRH) is a residential real estate investment trust (J-REIT) that was listed on the exchange in June 2006. Its main sponsor is Netherlands-based investment company AppleRingo Holdings B.V., which receives advice from Oaktree Capital Management, L.P., a U.S. investment firm. In July 2010, JRH merged with Prospect Reit Investment Corp.

The rating upgrade this time reflects the fact that JRH has improved its portfolio by acquiring properties steadily and strengthened its financial base further through a public offering of investment units and new borrowings, along with other positive developments.

In November 2013, JRH issued new investment units through a public offering for the first time since the merger. It plans to acquire seven properties for approximately 19.6 billion yen in total by March 2014 using proceeds from the public offering and other funds. This should increase JRH's asset size to approximately 180 billion yen. All of the seven properties are large and relatively new, and have strong competitiveness, with their average NOI yield exceeding that of existing properties. While JRH has been continuously working to improve portfolio quality by moving ahead with property replacement aggressively, the property acquisition will lead to further improvement in portfolio quality.

Despite the increasingly challenging environment for property acquisition, it would be possible for JRH to continue to achieve a certain degree of external growth, given its proven track record in property acquisition that capitalizes on its asset management company's own route for acquisition.

The average occupancy rate of JRH's properties was above 97% for two consecutive terms, with the NOI yield sustained above 5.5%. R&I believes that the profitability improvement can be attributed to the favorable supply-demand balance of rental housing and excellent management by the asset management company.

As of September 2013, JRH's LTV ratio was around 46%. Because the REIT will finance the above-mentioned property acquisition with new borrowings, along with proceeds from the public offering, a slight increase in the ratio is anticipated. In light of JRH's current LTV cap of about 50%, however, a sharp rise in leverage is unlikely. An unrealized loss has been reduced substantially thanks partly to higher appraisal value of its existing properties. Since the seven properties will be acquired at prices lower than their appraisal value, such loss is expected to decrease further.

JRH continues to raise funds stably from The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other domestic financial institutions. The REIT has already decided to borrow 11.5 billion yen in five to seven-year loans to partially fund the aforementioned property acquisition. This will contribute to longer borrowing periods and more staggered due dates. Financing costs have been reduced smoothly so far. Although all loans are currently secured, which is an issue to be addressed, R&I expects JRH to work on further improvement in funding conditions on the back of its favorable relationships with lender financial institutions.

The Rating Outlook is Stable. JRH will likely continue to maintain and improve portfolio quality through property replacement and achieve basically stable earnings from its existing properties, in R&I's view. On the financial front, R&I believes that JRH will bolster its funding base further, while maintaining conservative leverage.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's

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Credit Rating" and "Rating Methodology for J-REIT". 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/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER:	Japan Rental Housing Investments Inc. (Sec. Code: 8986)
	Issuer Rating
RATING:	A-, Previously BBB+
RATING OUTLOOK:	Stable

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