

Jul 25, 2011

R&I Affirms BBB, Changes Outlook to Positive: Japan Rental Housing Investments Inc.

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

ISSUER: Japan Rental Housing Investments Inc.
Issuer Rating: BBB, Affirmed
Rating Outlook: Positive, Changed from 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 AppleRingo Holdings B.V., an investment firm in the Netherlands, which receives advice from Oaktree Capital Management, L.P., a U.S. investment firm. On July 1, 2010, JRH merged with Prospect Reit Investment Corp. (PRI).

The Rating Outlook has been changed to Positive for reasons such as: (1) the quality and profitability of the portfolio has shown some improvement through asset reshuffles and leasing and (2) the funding base has been strengthened thanks partly to increased transactions with mega-banks and other domestic financial institutions, as well as longer maturities.

The portfolio consists of rental apartments located nationwide with those outside the 23 wards of Tokyo accounting for 51%. The average acquisition value of 830 million yen and the average property age of approximately ten years suggest JRH's characteristic that its portfolio includes more small and old properties than those of other residential REITs. JRH has 181 properties and over 9,700 leasable units. Accordingly, the portfolio is diverse in terms of both property and tenant compositions.

Since the merger, JRH has been working to improve its portfolio through asset reshuffles. In September 2010, it sold Hilltop Yokohama Negishi (book value: 5.2 billion yen), all units of which had been vacant after the completion of its use as a company-owned apartment. In 2011, the REIT also sold premium properties whose occupancy rates had been low for a protracted period and smaller properties (combined book value: 6.6 billion yen). The losses incurred upon the sale were offset by using surplus funds associated with negative goodwill. Meanwhile, JRH acquired younger properties located in Tokyo and Osaka for a total of 3.4 billion yen at high yields. Although the portfolio reshuffles made only partial changes, the quality has improved to a certain extent.

The average occupancy rate of the properties is high at 95.6% as of the end of June 2011. With the efforts to strengthen leasing of properties taken over from PRI appearing to have paid off, the rate has risen by approximately three percentage points from 92.7% indicated immediately after the merger (as of end-July 2010; excluding the effect of Hilltop Yokohama Negishi).

The loan to value (LTV) ratio remains in the mid 40% range. Nevertheless, at more than 50% on an appraisal value basis as of the end of March 2011, the LTV ratio is not necessarily low. JRH plans to maintain conservative financial management by controlling the LTV ratio between 45% and 50%.

All borrowings are long-term, although they carry collateral. The average term to maturity is far more than two years. JRH refinanced 13.9 billion yen in loans that matured in June 2011 from a group of banks, including mega-banks, for 11.7 billion yen in loans with a five-year maturity and 2.2 billion yen in loans with a three-year maturity. Accordingly, financial costs have decreased significantly. The relationships with the main creditor banks and other financial institutions appear to be solid, and the strengthening of the funding base has proceeded.

Challenges facing JRH would include: (1) continuously improve the portfolio quality through asset reshuffles, (2) raise its reputation in the capital markets and increase the viability of the medium to long-term growth strategy, and (3) continue to bolster the funding base. Nevertheless, since the competitive environment for acquisitions of rental apartments generating stable cash flow is somewhat harsh, the pace of portfolio improvements could be moderate. In implementing the growth strategy, future equity financing may also be restricted by the fact that the REIT's investment units were diluted in the past

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through several third party allotments. R&I will pay close attention to whether JRH is able to further strengthen its business and financial bases by solving these issues.

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

<http://www.r-i.co.jp/eng/sf/about/methodology/index.html>

R&I RATINGS:

ISSUER:	Japan Rental Housing Investments Inc. (Sec. Code: 8986)
	Issuer Rating
RATING:	BBB, Affirmed
RATING OUTLOOK:	Positive, Changed from Stable

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