

Jun 03, 2013

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., which receives advice from Oaktree Capital Management, L.P., a U.S. investment firm. In July 2010, JRH merged with Prospect Reit Investment Corp.

A change of the Rating Outlook this time reflects the fact that JRH has continued to improve portfolio profitability and strengthen its funding base, along with other positive developments.

The average occupancy rate of properties held by JRH has been rising, reaching a high level of 97.3% in the term ending March 2013. Thanks to cost savings and asset replacements, coupled with the high occupancy rate, among others, the NOI yield for the same term rose to 5.7%. R&I believes the profitability improvement can also be attributed to the favorable supply-demand balance of rental housing and excellent management by the asset management company.

JRH continues to raise funds stably from The Bank of Tokyo-Mitsubishi UFJ, Ltd. and other domestic financial institutions. The reit has already made refinancing arrangements for loans amounting to approximately 26.2 billion yen (about 35% of total) that come due in June 2013. Since the new loan terms will be two or five years, the average remaining term to maturity will exceed three years, and due dates will be staggered. Furthermore, through interest-rate swap agreements, fixed interest rates will be effectively applied to 40 billion yen in loans.

Financing costs have been reduced smoothly so far. The refinancing arrangements slated in June should mitigate such costs further. This, along with the higher NOI yield, has largely contributed to the earnings improvement.

The LTV ratio is conservatively maintained at the mid-40% level. The ratio will unlikely rise sharply in the future. Through improvements in appraisal value of its existing properties, etc., an unrealized loss has been reduced to 4% of the book value.

R&I will pay attention to whether improvements in management and financials that have been observed so far will persist over the medium term. A key factor on the management front will be a further improvement of the portfolio through acquisition of quality properties. Regarding financials, resumption of equity financing and release of security interest on borrowings, for example, will be keys.

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>

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

RATING: Issuer Rating
BBB+, Affirmed

RATING OUTLOOK: Positive, Changed from Stable

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