

Jul 24, 2012

R&I Upgrades to BBB+, 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: BBB+, 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 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 upgrade mainly stems from the facts that (1) the quality and profitability of JRH's portfolio has improved to a certain extent through asset reshuffles and leasing, which JRH worked on after the merger, 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.

JRH's portfolio consists of rental apartments located nationwide with those outside the 23 wards of Tokyo accounting for 49%. The average acquisition value of 870 million yen and the average property age of 10.7 years (as of end-March 2012) suggest JRH's characteristic that its portfolio includes more small and old properties than those of other residential REITs. JRH has 177 properties and approximately 9,800 leasable units. Accordingly, the portfolio is diverse in terms of both property and tenant compositions.

Since the merger with PRI, JRH has been pushing ahead with asset reshuffles by using surplus funds generated from negative goodwill. It sold 15 properties (a total of 14.5 billion yen on an acquisition value basis) including premium properties whose profitability had been low and smaller properties located in regional areas. Meanwhile, JRH acquired six relatively new, competitive properties mainly in Tokyo's 23 wards for a total of 10.0 billion yen at high yields. Although the asset reshuffles changed the portfolio only partially, its quality has been improving steadily.

The average occupancy rate of JRH's properties has been above 95% over the past one year or more, and the NOI yield recovered to 5.5% in the term ended March 2012. It appears these results have been brought about thanks to fine-tuned management plans developed by JRH's asset manager, as well as the stable supply-demand balance of the rental apartment market.

The loan to value (LTV) ratio is in the mid 40% range, maintained at a conservative level, and JRH does not plan to raise this ratio sharply going forward. Although the appraisal value as of end-March 2012 was lower than the book value by 7%, the ratio of unrealized losses to the total book value is on a downward trend.

Borrowing terms also keep improving. The majority of recent borrowings have a five-year maturity, resulting in the average remaining term of approximately 2.5 years. Each time JRH refinanced loans, borrowing costs decreased, and there is room for further cost reductions on future refinancing as well. With the outstanding loans from mega-banks growing steadily, the funding base is becoming more solid.

The Rating Outlook is Stable. Improvement of the portfolio quality and strengthening of the funding base will likely continue to progress steadily. Meanwhile, JRH's growth is constrained by borrowings that are collateralized at present and the difficult environment for public offerings. R&I will pay close attention to JRH's efforts to address 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.

■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 Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan <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.

<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: **BBB+, Previously BBB**

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 Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan <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.