Announcement: Moody's reviews five J-REITs ratings for downgrade

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Tokyo, December 20, 2011 -- Moody's Japan K.K. has placed the ratings of five J-REITs on review for possible downgrade.

Details as follows

Nippon Building Fund, Inc. (NBF):

Issuer and senior unsecured long term ratings, A1 Placed Under Review for Possible Downgrade

Japan Retail Fund Investment Corporation (JRF):

Issuer and senior unsecured long term ratings, A2 Placed Under Review for Possible Downgrade

Nippon Accommodations Fund Inc. (NAF):

Issuer and senior unsecured long term ratings, A2 Placed Under Review for Possible Downgrade

TOKYU REIT, Inc. (TRE):

Issuer and senior unsecured long term ratings, A2 Placed Under Review for Possible Downgrade

Mori Hills REIT Investment Corporation (MHR):

Issuer and senior unsecured long term ratings, Baa1 Placed Under Review for Possible Downgrade

RATING RATIONALE

This review is prompted by Moody's growing concern that the weak office-leasing market in Japan and the tough conditions for the J-REITs equity finance market will delay improvements in the financial leverage and profitability of the five J-REITs.

In this review, Moody's will measure the likelihood of improvements in their financial leverage, profitability, and liquidity coverage for future debt repayments, and consequently will either confirm their ratings or downgrade by one notch or more.

The financial leverage of all five J-REITs is higher than appropriate for their current rating levels. Improvements in leverage will require sufficient equity finance, which should be possible by increasing dividend payments by raising portfolio profitability, by improving the demand and supply balance, and by achieving higher trading volumes in the J-REIT equity market. However, the equity market is likely to take some time to recover.

Although the leverage of the five issuers is high, it has stayed at almost the same level and in some cases has gradually decreased in the past two years. Some issuers have also adopted conservative approaches such as diversifying the debt duration and finance resources and new equity issuance in order to manage finances.

Moody's will assess how these five J-REITs' investment and finance policies will likely improve their leverage during the next 12 to 24 months.

Moody's will also review the levels of rents and occupancy rates in their portfolios and the management of profitability.

In the Tokyo office leasing market, the occupancy rate remains sluggish due to Japan's recession. Additionally, new supply from 2012 will prevent any tightening. Although there is a delay in the bottoming of the leasing prices, demand for high-quality buildings is increasing as users look for quake-resistant buildings following the March 11 earthquake.

Also, the profitability of retail properties in Japan is weak due to low personal consumption. This leads to rent discounts and cancellation of leasing agreements by retail tenants.

To mitigate the impact of the tough environment, four issuers -- whose portfolios are comprised of office buildings and retail facilities -- have taken various steps, including diversifying their tenants, and entering into long-term or fixed-rent lease agreements.

On the other hand, the occupancy rate for NAF's portfolio is high and the NOI margin remains steady as well. The leasing market for residential properties in Japan, except for luxury apartments, has bottomed out and will continue to stabilize.

The debt-to-EBITDA ratios of all five J-REITs are higher than the level appropriate for their respective current ratings. The improvement in their profitability will depend on the quality of the portfolio managed by each company. Moody's will focus on the improvement in debt-to-EBITDA as a result of the companies' profit management.

Moody's is also concerned about liquidity coverage, as measured by liquidity sources, including cash, cash equivalent, and committed bank lines, against debt maturing over the next 12 months.

The coverage ratios of three out of the five issuers are over 100%. The ratios of the other two issuers are low, though their strong relationships with their banks, owing to their sponsors, do not lead to immediate concerns. Moody's is particularly focused on the liquidity coverage when assessing the ratings of J-REITs, which are capital-intensive businesses.

The principal methodology used in this rating was Moody's Global Rating Methodology for REITs and Other Commercial Property Firms published on October 1, 2010, and available on www.moodys.co.jp.

Please see the ratings tab on the issuer/entity page on the Moody's website for the last rating action and the rating history.

NBF, headquartered in Tokyo, is a J-REIT listed in September 2001 that invests in and manages office buildings and owns 64 buildings worth about JPY 873.1 billion as of June. Its operating revenue for the fiscal half-year ended June 2011 was JPY 28.1 billion.

JRF, headquartered in Tokyo, is a J-REIT listed in March 2002 that invests in and manages retail properties and owns 59 properties worth about JPY 624.2 billion as of August. Its operating revenue for the fiscal half-year ended August was JPY 21.8 billion.

NAF, headquartered in Tokyo, is a J-REIT listed in August 2006 that invests in and manages residential properties and owns 83 properties and 8,722 units worth about JPY 223.9 billion as of August. Its operating revenue for the fiscal half-year ended August was JPY 7.6 billion.

TRE, headquartered in Tokyo, is a J-REIT listed in September 2003 that invests in and manages office buildings and retail properties and owns 26 properties worth about JPY 199.6 billion as of July. Its operating revenue for the fiscal half-year ended July was JPY 6.9 billion.

MHR, headquartered in Tokyo, is a J-REIT listed in November 2006 that invests in, and manages office buildings, residences and retail properties located in central Tokyo and owns 11 properties worth about JPY 212.1 billion as of July. Its operating revenue for the fiscal half-year ended July was JPY 5.3 billion.

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