Rating Action: Moody's downgrades five J-REITs ratings

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Tokyo, March 16, 2012 -- Moody's Japan K.K. has downgraded the issuer and senior unsecured long term ratings of five J-REIT issuers.

These actions conclude the review for possible downgrade initiated on December 20, 2011.

Details follow:

Nippon Building Fund, Inc. (NBF):

Issuer and senior unsecured long term ratings, downgraded to A2 from A1, with a stable outlook.

Japan Retail Fund Investment Corporation (JRF):

Issuer and senior unsecured long-term ratings, downgraded to A3 from A2, with a stable outlook.

Nippon Accommodations Fund Inc. (NAF):

Issuer and senior unsecured long-term ratings, downgraded to A3 from A2, with a stable outlook.

Tokyu REIT, Inc. (TRE):

Issuer and senior unsecured long term ratings, downgraded to A3 from A2, with a negative outlook.

Mori Hills REIT Investment Corporation (MHR):

Issuer and senior unsecured long term ratings, downgraded to Baa2 from Baa1, with a negative outlook.

RATING RATIONALE

The downgrades reflect Moody's concerns that the stagnation of the real estate leasing market in Japan and the tough environment for the J-REIT equity finance market will mean further delays in any improvement in the profitability and credit quality of these companies.

Moody's assumes that the net-debt-to-EBITDA ratios of these five companies, which have increased to levels higher than what is appropriate for their previous ratings, are not likely to recover in the next 12 to 24 months to levels that support their previous ratings. This is because of decreasing rental prices.

The occupancy rates of Tokyo's office leasing market, remain sluggish due to Japan's recession. Additionally, new supplies of large-scale buildings from 2012 will prevent any tightening. Moody's expects a delay in the bottoming out of leasing prices, even for high-quality buildings.

In addition, profitability of retail properties has been weak due to low personal consumption. This has led to rental discounts and cancellations of leasing agreements by retail tenants.

Therefore, the portfolios of NBF, JRF, TRE and MHR, which consist of office buildings or retail outlets, will have to withstand a tough environment.

Given a current stagnation in the leasing markets, NBF has opted to expand its portfolio through the acquisition of new assets, aiming to grow its profit. At the same time, the size of its net debt has also increased. As a result, the balance between its debt and EBITDA has not significantly changed.

JRF's rental revenue should rise through the acquisition of new assets and by the steady long-term lease agreements in existing assets. However, the size of its net-debt has also increased and will not significantly reduce its net-debt-to-EBITDA ratio in next 12 months.

TRE's portfolio size has been steady, because of its selective stance on debt-funded acquisitions, since its portfolio restructuring from 2010 to 2011. In addition, the company has gradually reduced its total debt size, but income from its leasing business has remained low and will decrease slightly in next 12 months due to rental discounts.

MHR has conducted its portfolio restructuring and its master lease agreement based on fixed rents with its sponsor, to increase

its profitability. However, Moody's sees that it needs more time to recover its ratio to the appropriate level.

The leasing market for residential properties in Japan, as a whole, has bottomed out and will continue to stabilize. Thus, the occupancy rate of NAF's portfolio will stay at a high level, so that its profit margin remains steady and will gradually improve due to the recovery of rental prices.

However, the net-debt-to-EBITDA ratio of NAF, which remains high at over 11.0x, is not likely to recover to the level required for its previous rating in the next 12 months, because of NAF's high leverage and slow-paced cash flow recovery.

Moody's is also concerned that the financial leverage of NBF and NAF will take more time to recover to a level supported by its previous ratings. The loan-to-value ratios of these two companies have been higher than the levels appropriate for its previous ratings for the last three years at least, while the loan-to-value ratios of JRF, TRE and MHR have remained at the appropriate level, or have improved.

An improvement in leverage will require a sufficient amount of equity financing, such as an increase in dividend payments, a rise in the portfolio's profitability, tighter supply, and higher trading volumes for J-REIT shares. However, Moody's notes that more time is required for the J-REIT companies to enhance their equity sufficiently.

The rating outlooks of NBF, NAF and JRF are stable. The outlooks reflect (1) the conservative financial management led by these issuers; (2) the high accessibility to the equity market, and (3) the steady residential rental market involving NAF.

Despite the current challenging equity market, NBF has enhanced its equity through new share issuances amounting to JPY49.8 billion since last year, and NAF has issued new shares amounting to JPY22.1 billion in March 2011, though the actual loan-to-value ratios on these two companies have been relatively high.

JRF also has controlled its leverage steadily through a new share issuance of JPY20 billion in September 2011, and the disposal of non-core assets after its merger with La Salle Japan REIT in March 2010.

In addition, these two companies have maintained conservative approaches to their financial management.

For example, NBF maintains the longest tenor of debt in J-REIT sector rated by Moody's, and JRF shows the second longest. JRF also keeps the longest average remaining term of debt in Moody's-rated J-REIT sector.

The liquidity coverage ratio of NBF and JRF, as measured by liquidity sources such as cash, cash equivalents, and committed bank lines, against debt maturing over the next 12 months, remains over 100%. In addition, NBF has further expanded its committed bank line to JPY60 billion from JPY50 billion in September 2011.

TRE's outlook is negative. The outlook reflects Moody's concern that the current stagnation in lease market will affect its less diversified portfolio, although it maintains conservative approaches to the financial management such as the third longest tenor of debt in J-REIT sector rated by Moody's and the liquidity coverage ratio kept over 100%.

MHR's outlook is negative, reflecting low levels of liquidity coverage, long-term debt/total debt ratio, and fixed interest debt/long-term debt ratio. Moody's is focusing particularly on liquidity coverage of companies in the J-REIT sector, which is one of its capital-intensive businesses.

Upward rating pressure could result, with a decrease in leverage and an increase in rental prices, with the following metrics:

For NBF: net-debt-to-EBITDA staying below 7.0x, debt-to-gross asset remaining less than 40%, liquidity coverage remaining more than 150%.

For JRF and TRE: net-debt-to-EBITDA staying below 8.0x, debt-to-gross asset remaining less than 45%, liquidity coverage remaining more than 150%.

For NAF: net-debt-to-EBITDA staying below 10.0x, debt-to-gross asset remaining less than 50%, liquidity coverage remaining more than 100%.

For MHR: net-debt-to-EBITDA staying below 11.0x, debt-to-gross asset remaining less than 45%, liquidity coverage remaining more than 100%, the tenor of debt being prolonged and the debt repayment schedule being flattened.

On the other hand, factors that could lead to a downgrade include the deterioration in portfolio cash flows, falling real estate prices, and higher financial leverage and liquidity, with the following metrics:

For NBF: net-debt-to-EBITDA staying above 9.0x, debt-to-gross asset remaining more than 45%.

For JRF and TRE: net-debt-to-EBITDA staying above 10.0x, debt-to-gross asset remaining more than 50%.

For NAF: net-debt-to-EBITDA staying above 11.0x, debt-to-gross asset remaining more than 55%.

For MHR: net-debt-to-EBITDA staying above 13.0x, debt-to-gross asset remaining more than 50%.

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.

Nippon Building Fund, Inc., headquartered in Tokyo, is a J-REIT listed in September 2001 that invests in and manages office buildings, and own 64 buildings amounting to approximately JPY870.2 billion (as of December 2011). Its operating revenue for the fiscal half-year ended December 2011 was JPY29.8 billion.

Nippon Accommodations Fund Inc., headquartered in Tokyo, is a J-REIT listed in August 2006 that invests in and manages 83 residential properties with 8,722 units worth about JPY223.9 billion as of August. Its operating revenue for the fiscal half-year ended August was JPY7.6 billion.

Japan Retail Fund Investment Corporation, headquartered in Tokyo, is a J-REIT listed in March 2002 that invests in and manages retail properties and own 59 properties amounting to approximately JPY624.2 billion (as of August 2011). Its operating revenue for the fiscal half-year ended August 2011 was JPY21.8 billion.

Tokyu REIT, Inc., headquartered in Tokyo, is a J-REIT listed in September 2003 that invests in and manages diversified types of real estates and own 26 properties amounting to approximately JPY199.6 billion (as of July 2011). Its operating revenue for the fiscal half-year ended July 2011 was JPY6.9 billion.

Mori Hills REIT Investment Corporation, headquartered in Tokyo, is a J-REIT listed in November 2006 that invests in and manages mainly office buildings, residences and retail properties located in central Tokyo and own 11 properties amounting to approximately JPY212.1 billion (as of July 2011). Its operating revenue for the fiscal half-year ended July 2011 was JPY5.3 billion.

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