



# NEWS RELEASE

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## R&I Assigns AA-: Japan Retail Fund Investment Corp.

Rating and Investment Information, Inc. (R&I), has assigned the following ratings.

ISSUER: Japan Retail Fund Investment Corp. (Sec. Code: 8953)  
Senior Long-term Credit Rating

### R&I RATING: AA- (Newly Assigned)

#### **RATIONALE:**

In March 2002, Japan Retail Fund Investment Corporation (JRF), a real estate investment trust (J-REIT) sponsored by Mitsubishi Corp. (senior long-term credit rating: AA-) and UBS, became the third REIT to be listed, following Nippon Building Fund Inc.(NBF) and Japan Real Estate Investment Corporation (JRE). At the end of July 2004, assets owned by JRF were 20 properties with a value of 186,175 million yen (acquisition price base), and JRF plans to increase acquisitions to 400 billion yen by the end of March 2007. As the first fund investing specifically in commercial facilities, JRF is helping lead development of J-REITs.

R&I considers J-REITs to combine characteristics of two types of entities, namely a special purpose company (SPC) whose business is limited in scope and an operating company possessing the characteristics of a going concern, and follows the procedures described below when conducting a rating evaluation.

Just as when rating a securitized real estate product, R&I begins by determining a rating level as the starting point, by using the Loan to Value (for the LTV, R&I uses debt + deposit guarantee money - cash deposits and trust deposits as the numerator and the real estate valuation determined by R&I as the denominator) and the interest coverage ratio (ICR, the number of times the stable NOI (lease income before depreciation) assessed by R&I exceeds interest payments, assuming a stress interest rate of 6%). When deciding a rating level as the starting point, however, R&I uses indicators with a medium-term outlook based on the REIT's future investment and capital plans, rather than the LTV and ICR observed momentarily at the present point in time, because the LTV and ICR indicators vary constantly in the process of a J-REIT accumulating assets and fund raising for acquisitions.

R&I next evaluates the risk that changes in these indicators will exceed R&I's assumptions, and notches down the rating level to be used as the starting point in accordance with the perceived risk. R&I evaluates the factors behind such changes by carefully examining qualitative items such as the asset management company's property investment policies, operation and management policies, financial policies, and relationship with the sponsor.

As the final step, R&I makes a comparative verification with the rating level of property leasing companies rated by R&I, and determines its final rating.

The current portfolio of JRF is composed of 100% commercial establishments, 28% of which are urban properties and 72% of which are suburban-type properties.

By region of property location, the portfolio has a comparatively high ratio of local properties with 30% being located in the outskirts of the Tokyo metropolitan area rather than in Tokyo's 23 wards, and 57% being local properties. The average acquisition price per property is high at 9,309 million yen, and the portfolio is composed of comparatively new properties with the weighted average years since construction being 7.9 years. While single-tenant suburban properties raise concerns regarding risk the tenants may vacate, R&I analyzed factors such as the strength of the commercial areas, the properties' competitiveness within their commercial areas, the tenants' creditworthiness, store operating results, and the contents of the property leases, and confirmed this risk has been mitigated to a reasonable extent. Tenants are concentrated among retailers such

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**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Structured Finance Rating Division TEL. 03-3276-3406-3428 FAX. 03-3276-3429 EMAIL sfdept@r-i.co.jp Homepage <http://www.r-i.co.jp>

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as Ito-Yokado (Senior Long-term Credit Rating of AA+) and Aeon (A+), all of which have excellent creditworthiness.

R&I's property valuation was 172,965 million yen, or 92.9% of the total acquisition amount of 186,175 million yen and 91.6% of the 188,915 million yen appraised value. Using R&I's valuation as a base, as of July 2003 the LTV was 41.5% and the ICR, assuming a stress interest rate of 6%, was 6.75, which corresponds to a AAA rating under R&I's standard. The R&I medium-term LTV is projected to be 41%-50%, and R&I believes the ICR will fluctuate at an excellent level of three times or higher.

The principal investment targets of JRF are "commercial establishments such as commercial store buildings located in urban centers, suburban shopping centers and freestanding roadside stores." Compared to offices or residential properties, commercial facilities are considered relatively high-risk assets, because property values can be easily affected by a property manager's operating and management skills. JRF, however, has reduced the risks unique to commercial establishments through selective investment in highly competitive properties, its asset management company system, and the presence of a sponsor possessing ample experience in commercial facilities management. Nevertheless, JRF will require constant vigilance of its investment and management trends in "growth" properties that seek up-side potential through measures such as introducing percentage rents.

JRF has set its standard for the maximum debt ratio (total asset base) including deposits and guarantee money at 50%, and has a policy to maintain the ratio between 40% and 50% once the portfolio is stabilized in the property management phase. When actual past results are examined as well, JRF has already implemented two capital increases and is maintaining a conservative debt level. Although it is necessary for a REIT to address the risk of an increase in interest rates and refinance risk in addition to controlling its LTV level, JRF's ability to absorb an interest rate increase is strong, as its high ICR illustrates, because JRF has always been able to raise long-term, low-interest fixed rate funds through large-sum deposits (this is considered a momentary advantage, however, because the customary practice of depositing guarantee money having construction cooperation money characteristics is gradually disappearing). In addition, JRF is pursuing financial management cognizant of the various financial risks, using techniques such as a high percentage of long-term borrowing, converting debt to fixed rates through interest rate swaps, and establishment of commitment lines corresponding to contractual redemptions of guarantee money.

## **R&I RATINGS:**

ISSUER: Japan Retail Fund Investment Corp. (Sec. Code: 8953)  
Senior Long-term Credit Rating

R&I RATING: AA- (Newly Assigned)

An R&I Senior Long-term Credit Rating is an opinion regarding an issuer's overall capacity to pay its entire financial obligations, without taking into account the degree of recovery of specific obligations.

A Senior Long-term Credit Rating will be assigned to all issuers. Ratings for individual issues may differ from the Senior Long-term Credit Rating, depending on the terms and conditions of the issue.