



Press Release

Structured Finance Ratings & Research

For immediate release

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S&P Raises Ratings On Four Series Of JRF Unsecured Notes To 'A+'; Long-Term Rating Affirmed

Tokyo, Feb. 27, 2007 – Standard & Poor's Ratings Services today raised to 'A+' from 'A' its ratings on Japan Retail Fund Investment Corp.'s (JRF) outstanding senior unsecured notes, series one through four, which have a combined issue amount of ¥65.0 billion. At the same time, Standard & Poor's affirmed its 'A+' long-term and 'A-1' short-term corporate credit ratings on JRF (see list below). The outlook on the long-term rating remains stable.

It is a Standard & Poor's policy to assign a rating to unsecured note one notch below the corporate credit rating if the proportion of encumbered portfolio net operating income (NOI) is above 50%. Regarding JRF, the ratio remains at about 57% of the total NOI, due to the 16 encumbered properties associated with outstanding hoshokin liabilities as of the end of the ninth accounting period (August 2006). Therefore, JRF's unsecured note was rated one notch below its long-term corporate credit rating. However, Standard & Poor's decided to raise the ratings on JRF's outstanding unsecured notes to match its 'A+' corporate rating, given the firm's relatively small amount of outstanding hoshokin liabilities in relation to total assets, and its total unsecured borrowings from financial institutions.

The ratings on JRF reflect its strong business position and conservative financial profile, as well as the conservative nature of J-REIT structures. The company is a top-tier J-REIT in terms of asset portfolio size and market capital, backed by a high-quality portfolio, and sponsors with strong real estate expertise in Japan. JRF's portfolio is composed of retail facilities with high occupancy rates that generate stable cash flow. JRF maintains strong liquidity and a solid financial profile, supported by a conservative capital structure and a relatively high profitability.

As of Aug. 31, 2006, the last day of JRF's ninth accounting period, JRF owned 37 retail properties with a total acquisition value of about ¥370.0 billion. Since then, JRF has purchased Kawaramachi OPA for ¥18.5 billion in September 2006, AEON Ueda Shopping Center for ¥9.5 billion and Diamond City Leafa for ¥29.9 billion in November 2006, and Diamond City Terrace for ¥20.3 billion and land adjacent to Wonder City for ¥0.4 billion in December 2006. JRF plans to build additional facilities designed to improve the value of existing facilities at Wonder City. JRF's current asset size is about ¥448.5 billion. In December 2007, JRF also plans to purchase Urawa PARCO, a department store slated for construction in front of JR Urawa Station in September 2007, and in May 2008, it plans to purchase Ario Otori, which is slated for construction in March 2008. Having pursued a relatively aggressive strategy while maintaining the quality of its portfolio, JRF's portfolio assets have expanded about 10x over the five years since it listed on the Tokyo Stock Exchange (TSE).

JRF's portfolio still has tenant concentration risk, given that the largest two tenants, Aeon Co. Ltd. (A-/Stable/--) and Ito-Yokado Co. Ltd. (AA-/Stable/A-1+), accounted for about 29% of the portfolio in terms of total rent as of the end of December 2006. This marks a slight improvement from about 33% in August 2005. However, there are currently no specific concerns as these two Japanese retail operators have strong competitiveness and high credit quality in relation to their competitors. The portfolio has a certain level of asset concentration risk, with Higashi Totsuka Aurora City

accounting for about 11%, and the largest four properties for about 30%, of the total portfolio value. However, this risk is mitigated by such factors as stable cash flows from the largest properties, as well as high competitiveness in the submarket. Asset concentration risk is expected to decline modestly over the long term, as JRF acquires more properties.

Boasting assets worth ¥448.5 billion as of the end of December 2006, JRF has expanded its portfolio via a relatively aggressive strategy, and has achieved its external growth target (to enlarge its portfolio to ¥400 billion by March 2007) ahead of schedule. As JRF has achieved this target, it also plans to embark on more proactive efforts to generate internal growth in the coming years. For example, renewal work is currently under way at the Nara Family property, with JRF looking to enhance the property's competitiveness through the replacement of tenants, while substantial changes are also being carried out on sections of the HAKATA RIVERAIN property. JRF is expected to maintain and enhance the competitiveness of its existing properties through renewal initiatives.

For its ninth accounting period, JRF's total rental revenue stood at about ¥15 billion, its net income at about ¥5.1 billion, and its debt-to-capital ratio had increased to about 52.7% according to the company's definition, including hoshokin liabilities. Its debt-to-capital ratio declined to the mid-40% level following the company's equity issue in September 2006. JRF is expected to maintain a leverage ratio near 40%, including hoshokin liabilities. In the short term, JRF will maintain this ratio in the low-40% to mid-40% range. JRF has conducted five timely public equity issues since listing on the TSE, and has thus maintained effective leverage control. JRF's outstanding security deposits and hoshokin liabilities stood at about ¥71.5 billion at the end of the ninth accounting period, with the money used to cover mid- to long-term funding. JRF's cash flow is highly stable, with its interest coverage ratio (EBITDA to interest expenses) standing at about 15x, and FFO to debt standing at about 12% (9.3% if hoshokin liabilities are included) in the ninth accounting period. Liquidity remains high, with JRF's coverage ratio (net cash flow to interest expenses plus dividends) standing at about 1.7x. Cash and cash equivalents outstanding stood at approximately ¥15.4 billion as of August 2006. JRF has ample liquidity, as it maintains favorable relationships with multiple financial institutions. Its financial flexibility is also relatively sound, as it borrows on an unsecured basis from financial institutions.

The outlook on the long-term credit rating is stable. JRF is expected to continue generating stable revenue based on its diversified and high-quality property portfolio. In light of its plans to place a greater emphasis on internal growth, JRF is expected to maintain its conservative financial management while maintaining the competitiveness of its portfolio. Standard & Poor's will continue to monitor the concentration of properties and tenants, leverage control, and the level of cash flow protection.

RATINGS RAISED

Japan Retail Fund Investment Corp.

Senior unsecured notes series 1 through 4 (total issue amount: ¥65 billion)

Outstanding bonds

To From

A+ A

RATINGS AFFIRMED

A+ Long-term corporate credit rating

A-1 Short-term corporate credit rating

A Japanese-language version of this media release is available on Standard & Poor's Research Online at www.researchonline.jp, or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

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