



NEWS RELEASE

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R&I View: Impact of Downgraded Pacific HD on 2 REITs

No immediate rating impact but R&I will observe their ties with banks.

On September 30, R&I downgraded the Issuer Rating of Pacific Holdings, Inc. (Sec. Code: 8902) to BB- from BBB- and also placed on the Rating Monitor with a view to downgrading. Pacific Holdings Group operates two REITs of Nippon Residential Investment Corp. (Issuer Rating=A+, NRI) and Nippon Commercial Investment Corp. (Issuer rating=A, NCI) .

REIT is independent from a sponsor and there will be no direct impact on its portfolio and financials following the rating downgrade of the sponsor. NRI has a well-diverse portfolio worth over 300 billion yen comprising mainly of relatively new high-quality leased condominium. NCI also has assets worth approximately 250 billion yen centered on highly competitive large office buildings and commercial facilities. Occupancy ratios are high, and the debt ratio is in the mid-50% level although slightly higher than the targeted level.

However, both NRI and NCI have extensive business ties with major financial institutions in Japan mainly with their main banks. Although NCI has pledged collateral for all its loans on October 1, R&I does not currently assume its financing to be largely affected. It is, however, undeniable that the rating downgrade of a sponsor may affect REIT's relationship with financial institutions under the harsher environment for real estate financing. R&I will closely follow even more their relationship with their own financial institutions.

NCI has pledged collateral but R&I does not incorporate the collection subordination to secured loans for a high rating. Moreover, some limitations on asset sales and new funding will be placed by converting to the secured financing and they may affect the rating. R&I had formerly downgraded an investment corporation with A+ rating for such reasons. R&I, however, considers the pledging of collateral will not cause a rating downgrade unless major changes in their business ties with financial institutions are seen, given the ratings are at A level.