Moody's Investors Service

Rating Action: **Moody's upgrades NRI to Ba2; stays on review for possible upgrade**

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Tokyo, October 29, 2009 -- Moody's Investors Service has upgraded to Ba2 from B1 its issuer and senior unsecured long-term debt ratings for Nippon Residential Investment Corporation (NRI) and kept them on review for a further possible upgrade.

These upgrades partly reflect the recognition that the M&A process -- between NRI and Advance Residence Investment Corporation (ADR) and will start in March 2010 -- is facilitating the business reconstruction of NRI.

On September 25, 2009, an M&A agreement between NRI and ADR was concluded.

Previously, the 93.8% of shares of Pacific Residential Corporation (PRS), an asset management company of NRI, were held by Pacific Holdings Inc, which was undergoing corporate rehabilitation proceedings.

However, at the time of the M&A agreement, AD Investment Management Co., Ltd, an asset management company of ADR and subsidiary of ITOCHU Corporation (Baa1), acquired the shares of PRS and became its parent company.

This development ended the negative effect on NRI's operation of its sponsor's credit impairment.

According to the documents of a combined analysts meeting on September 28, 2009, a newly-created REIT will be listed at the beginning of March, 2010 after a unit-holders' meeting scheduled on November 30, 2009.

As for recent refinancing activity, JPY 18 billion in bonds -- due in September and October -- have been redeemed by loans under a reserved agreement, which was concluded subject to the conclusion of the M&A agreement. The latter has been signed.

In October, a 5-year loan from the Development Bank of Japan was newly financed and concerns over refinancing resolved.

NRI's portfolio, with its focus on residential properties, equals about JPY 302.7 billion (based on purchase prices), with 137 properties involving about 9,300 rentable units.

As two properties have been sold since the end of last year -- in forced sales -- due to financial reasons, the portfolio is mostly new and well diversified throughout Tokyo and neighboring areas. These characteristics will help it enjoy stable cash flows.

The average occupancy rate for the fiscal half-year ended May 2009 was 93.7% and 92.9% in the end of September, 2009; the one-point fall reflected occupancy declines for large units. Such units account for about 10% of the portfolio. Performance will be stressed to some extent in such high-end properties.

In addition, Moody's is concerned that the value of the real estate in the portfolio is declining, affected by the low liquidity of real estate.

In the review, Moody's will focus on 1) the results of the unit-holders' meeting; 2) any improvements in assets due to the merger with ADR; 3) improvements in financial leverage by PO, etc; 4) elimination of the subordination of its issuer and senior unsecured long-term debt ratings to outstanding borrowings through an improvement of its secured debt ratio; and 5) improvements in earnings through the replacement of properties by negative goodwill.

Moody's previous rating action on NRI took place on August 7, 2009 when it changed the direction of its review of the B1 issuer and senior unsecured long-term debt ratings to possible upgrade. The rating action takes into account the fact that NRI's rated bonds are subordinated to its outstanding borrowings.

The principal methodology used in rating the real estate investment trusts was the "Rating Methodology for

REITs and Other Commercial Property Firms," published in January 2006, which can be found at www.moodys.com in the Research & Ratings directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Ratings Methodologies subdirectory.

Nippon Residential Investment Corporation is a Japanese real estate investment trust investing in and managing residential properties. Its operating revenues totaled approximately JPY 9.1 billion for the fiscal half-year ended May 2009.

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