



# NEWS RELEASE

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## R&I Upgrades to (BBB), Retains on Monitor: NRI

Rating and Investment Information, Inc. (R&I) has announced the following:

**ISSUER:** Nippon Residential Investment Corp. (Sec. Code: 8962)  
Issuer Rating

**R&I RATING: (BBB); Upgraded from (BB)**  
Remains on the Rating Monitor with a view to upgrading

**Unsec. Str. Bonds No.4, 7, 9 & 10**  
**R&I RATING: (BBB); Upgraded from (BB-)**  
Remains on the Rating Monitor with a view to upgrading

### **RATIONALE:**

Nippon Residential Investment Corp. (NRI) is the largest REIT specialized in residential properties. In March 2010, NRI is scheduled to merge with Advance Residence Investment Corp. (ADR, Sec. Code: 8978, Issuer Rating: A+, Placed on the Rating Monitor), which has Itochu Corp. as its main sponsor. R&I retained the ratings for NRI on the Rating Monitor with a view to upgrading after the REITs announced in August 2009 that they signed a letter of intent regarding the merger.

The upgrade of the ratings this time has reflected the diminishment of short-term refinance risk and the progress in the merger process. Since the creditworthiness of NRI is expected to improve further if the merger materializes, R&I has retained the ratings on the Rating Monitor with a view to upgrading.

NRI's fundraising capacity was adversely affected by the deterioration of the creditworthiness of its former sponsor. It has been getting better, however, after NRI agreed to the merger with ADR and acquired a new sponsor accordingly. Most of its recent refinancing has been made through long-term borrowing, and the duration of debts outstanding has been lengthened. NRI redeemed corporate bonds totaling 18 billion yen due in September and October 2009 through new borrowing. Although it appears many lenders have extended the funds to NRI on the premise that the borrower will merge with ADR, at least its short-term refinance risk has significantly diminished.

The merger process is on schedule. NRI and ADR signed a merger agreement in September 2009, and AD Investment Management Co., Ltd. (group company of Itochu Corp.) acquired 96.9% of the shares of NRI's asset manager. On November 30, the merger was approved at the general unitholders' meetings of both parties. While there is still time before the deadline for the merger in March 2010 and some uncertain factors exist, the feasibility of the merger has substantially increased.

In consideration of the aforementioned circumstances, R&I has upgraded the Issuer Rating to BBB and retained the rating on the Rating Monitor with a view to upgrading. With regard to the rated corporate bonds, since the need to reflect recovery risk receded as a result of improvement in NRI's creditworthiness, R&I has assigned the bonds the same rating as the Issuer Rating.

R&I will examine a post-merger portfolio, investment management strategy, and financial policy, among others, and incorporate them in the new ratings.

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The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/st/methodology.html>

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

## R&I RATINGS:

**ISSUER:** Nippon Residential Investment Corp. (Sec. Code: 8962)

**ISSUER RATING:** (BBB); Upgraded from (BB)

**Remains on the Rating Monitor with a view to upgrading**

<b>LONG-TERM ISSUE RATING:</b>	<b>Issue Date</b>	<b>Redemption</b>	<b>Issue Amount (mn)</b>
Unsec. Str. Bonds No.4	Feb 20, 2006	Feb 18, 2011	Yen 15,000
Unsec. Str. Bonds No.7	Feb 09, 2007	Feb 09, 2012	Yen 12,000
Unsec. Str. Bonds No.9	Sep 13, 2007	Sep 13, 2011	Yen 10,000
Unsec. Str. Bonds No.10	Sep 13, 2007	Sep 13, 2012	Yen 4,800

**R&I RATING:** (BBB); Upgraded from (BB-)

**Remains on the Rating Monitor with a view to upgrading**

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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