



# NEWS RELEASE

Mar 1, 2010

## R&I Assigns A, Stable: Advance Residence Investment Corp.

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

**ISSUER:** Advance Residence Investment Corp. (Sec. Code: 3269; to be listed on March 2)  
**Issuer Rating**

**R&I RATING: A (Newly Assigned)**

**RATING OUTLOOK: Stable**

**Long-term Issue Rating**

**(Issued by the former Advance Residence Investment Corp.)**

**R&I RATING:** A (Downgraded from (A+); Removed from the Rating Monitor)

**(Issued by Nippon Residential Investment Corp.)**

**R&I RATING:** A (Upgraded from (BBB); Removed from the Rating Monitor)

### **RATIONALE:**

Advance Residence Investment Corp. (ADR) is a real estate investment trust (REIT) specializing in residential investment. It was established on March 1 through the merger of the former ADR (Issuer Rating: A+ on the Rating Monitor with direction uncertain) and Nippon Residential Investment Corp. (NRI, Issuer Rating: BBB on the Rating Monitor with a view to upgrading). Its asset manager is AD Investment Management Co., Ltd. (ADIM), a group company of Itochu Corp.

ADR's portfolio consists of relatively new competitive rental housing located primarily in the central Tokyo area. With assets far exceeding 300 billion yen, ADR is the largest residential REITs in Japan. Its properties and tenants are widely diversified, with 188 properties and over 14,000 leasable units. These factors, combined with low rent volatility, which is a characteristic of residential investment, will likely allow ADR to generate stable cash flow over the medium to long term. Although some concern remains regarding the performance of properties with high rents or those located in regional cities, these properties account for only a limited portion of ADR's portfolio. In the second half of 2009, occupancy rates at NRI and the former ADR were solid, hovering around 93% and 95%, respectively.

In its investment and property management, ADR intends to capitalize on the wide-ranging ability of the Itochu Group, which has a decent business base and track records in housing as well. Furthermore, ADR now has access to NRI's expertise in property management. Through the merger of ADIM and NRI's asset manager, ADIM has taken over the personnel of NRI's asset manager. Also, Itochu Urban Community Ltd. acquired a company that was entrusted with the management of a number of NRI's properties. As such, ADR has established a framework that will ensure continued smooth operations.

Meanwhile, ADR's debt ratio is as high as approximately 60% due partly to the revaluation of NRI's assets. ADR plans to operate with the debt ratio of 50 to 55%. It aims to lower the debt ratio as early as possible by, for example, selling part of its properties and raising capital through public offerings. Benefits from debt reduction through the sale of properties are limited, however. Moreover, given the level of its investment unit price, the environment for a capital increase has yet to be fully recovered. The debt ratio may therefore remain high for the time being.

The merger of the former ADR and NRI is expected to create substantial negative goodwill. Negative goodwill itself is not a positive factor in the assessment of creditworthiness, although it could allow for a flexible dividend policy. Whether ADR will be able to actually improve its financial profile while capitalizing on the negative goodwill depends on the new management of ADR.

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Supported by its stable cash flow and the creditworthiness of Itochu, it is unlikely that ADR will face serious problems in fundraising even if it is highly leveraged. Nevertheless, NRI has so far pledged its properties as collateral. In addition, prior to the merger, the former ADR agreed with a group of banks to pledge all of its properties as collateral. At present, the average maturity of ADR's debt is less than two years, which is relatively short. It has taken over NRI's bonds of 71.5 billion yen, of which 20 billion yen will become due by the end of the year. Concerns over these factors may be mitigated in a relatively short term, however, depending on its future fundraising. Before incorporating these factors into the rating, R&I needs to follow the outcome of ADR's fundraising activities for some time.

The rating for ADR is based on the rating for the former ADR, which has in effect acquired NRI, and also takes into consideration factors such as the portfolio, financial profile and fundraising of ADR after the merger. ADR has major strengths in the portfolio that generates stable cash flow, as well as in strong support from a proven sponsor. Meanwhile, ADR faces financial challenges, such as the high debt ratio and significant scope for improvement of the debt it has taken over from NRI. Consequently, R&I has assigned an Issuer Rating of A, a notch lower than the rating for the former ADR. Its bonds have been rated on par with the Issuer Rating.

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:** Advance Residence Investment Corp. (Sec. Code: 3269)  
**ISSUER RATING:** A (Newly Assigned)  
**RATING OUTLOOK:** Stable

<b>LONG-TERM ISSUE RATING:</b>	<b>Issue Date</b>	<b>Redemption</b>	<b>Issue Amount (mn)</b>
Unsec. Str. Bonds No.1 *	Nov 21, 2007	Nov 21, 2011	Yen 5,000
Unsec. Str. Bonds No.2 *	Nov 21, 2007	Nov 21, 2012	Yen 5,000

\* Issued by the former Advance Residence Investment Corp.

**R&I RATING:** A (Downgraded from (A+); Removed from the Rating Monitor)

<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

\* Issued by Nippon Residential Investment Corp.

**R&I RATING:** A (Upgraded from (BBB); Removed from the Rating Monitor)

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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