



Moody's Investors Service

Rating Action: **Moody's upgrades the assumed bond's rating of new Advance Residence REIT to Ba1**

Global Credit Research - 01 Mar 2010

Rating upgraded to Ba1, remains under review for possible further upgrade

Tokyo, March 01, 2010 -- Moody's Investors Service has upgraded to Ba1 from Ba2 its senior unsecured long-term debt rating for Advance Residence Investment Corporation (ADR), which has inherited the senior unsecured long-term debt of Nippon Residential Investment Corporation (NRI), and kept it under review for a possible further upgrade.

The rating action takes into account the fact that ADR's rated bonds are subordinate to its outstanding borrowings.

On March 1, 2010, the former Advance Residence Investment Corporation (ex-ADR) and NRI merged and established a new REIT -- Advance Residence Investment Corporation. Both ex-ADR and NRI have been completely subsumed into the new entity.

This upgrade reflects Moody's view that, with the merger, 1) the sponsor has become a member of the Itochu Corporation (Baa1) group, which has dispelled credit fears regarding NRI's sponsor; and 2) ADR's assets are now somewhere in the mid-JPY 300 billions, which eases the portfolio concentration inherited from ex-ADR, contributes to the stability of revenue, and aid in cutting costs.

ADR announced that all the properties in its portfolio would become collateral before the merger took place, which may constrain the company's financial flexibility. In addition, the company's leverage is very high in J-REIT sector; according to our estimates, debt to total assets is now over 60% and net debt/EBITDA is around 15-16x. Bringing these numbers down and raising liquidity coverage to address the rise in debt resulting from the merger will be challenges the company will have to face in the near future.

Moody's is continuing the review for possible upgrade as it needs to examine the new entity's investment policy and financial management -- particularly its specific plans to achieve its targeted LTV of 50-55% (as announced prior to the merger).

Moody's previous rating action on NRI took place on October 29, 2009, when it upgraded the issuer and unsecured senior debt ratings to Ba2 from B1 and kept the ratings on review for possible further upgrade. As NRI has been subsumed by the new entity, Moody's has withdrawn its issuer rating. For further details, refer to Moody's Withdrawal Policy at www.moodys.com.

The principal methodology used in rating real estate investment trusts is Moody's "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 Rating Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies subdirectory.

New Investment Corporation - Advance Residence Investment Corporation is a Japanese REIT that invests in and manages residential properties. It is scheduled to be listed on the Tokyo Stock Exchange on March 2, 2010. The former ADR's operating revenues totaled approximately JPY2.8 billion for the fiscal half-year ended December 2009, and NRI's, JPY8.7 billion for the fiscal half-year ended November 2009.

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