MOODY'S
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Rating Action: Moody's upgrades Advance Residence's bond rating to Baa3

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Tokyo, June 30, 2010 -- Moody's Investors Service has upgraded to Baa3 from Ba1 its senior unsecured long-term debt rating on Advance Residence Investment Corporation (ADR) and changed the rating outlook to stable.

These rating actions take into account the fact that ADR's rated bonds are subordinate to its outstanding borrowings.

This upgrade concludes the review initiated March 1, 2010, and reflects Moody's view that the series of measures implemented to improve ADR's financials following its merger with Nippon Residential Investment Corporation in March 2010 will lead to better financials and more stable cash flow from its portfolio, which focuses on residential properties and is valued at approximately JPY 360 billion.

On June 4, 2010, ADR announced that it was 1) issuing 240,000 units through a public offering; 2) setting up a commitment of line JPY 25 billion; 3) purchasing six properties for JPY 10.5 billion; and 4) unifying most of its properties under the "RESIDIA" brand.

On June 28, 2010, ADR completed its public offering, raising JPY 26.4 billion. Approximately JPY 20 billion of the proceeds will be able to used to pay down loans and bonds. ADR has already paid down JPY 3 billion in debt, out of the JPY 5.9 billion in proceeds from a sale of nine properties in May 2010. As a result of these debt payments, as well as the offering, ADR's ratio of debt to total assets will decline from over 61% to about 54% (according to Moody's estimates).

The proceeds from the commitment line -- in addition to some of the offering proceeds -- may be used to redeem the JPY 35 billion in bonds and approximately JPY 16.5 billion in loans coming due by March 2011.

Another JPY 10.5 billion will be used to acquire the six new properties. The net operating income yield for the nine properties sold in May 2010 was 5.6%, but the NOI yield of the six new properties is estimated at 6.4%, which will help increase ADR's profitability.

Although the book values of some of the properties are lower than current appraisal values (equivalent to unrealized losses of approximately JPY 7.2 billion as of March 1, 2010), the company will also benefit from approximately JPY 44 billion of negative goodwill resulting from the merger.

And since the portfolio's operating profits may remain stressed, this asset "exchange" will effectively help maintain, possibly even increase, ADR's NOI.

The outlook change to stable is based on Moody's view that the cash flow from ADR's portfolio will be stable and that the company's conservative financial management will remain focused on further improvement.

ADR is targeting an LTV of 50-55%, as it announced after the merger. Nevertheless, even with the improvement in financial leverage, Moody's still considers this somewhat high for a J-REIT and thus LTV remains a concern.

Also, Moody's does not believe that ADR's net debt/EBITDA of 11x-13x will improve for some time -- at least, not until the company's profits rise. However, a quality residential portfolio should help minimize profit volatility in an economic downturn, which mitigates concerns about the company's credit metrics.

The collateralization of ADR's properties that took place before the merger with NRI has been a hindrance to the company's financial flexibility. Thus, the de-collateralization will be credit-positive, as the rated bonds will no longer be subordinated.

Moody's previous rating action on ADR took place on March 1, 2010, when it upgraded the unsecured senior debt ratings to Ba1 from Ba2 and kept the ratings under review for possible further upgrade.

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 was listed on the Tokyo Stock Exchange on March 2, 2010. Operating revenues for the former ADR's came to approximately JPY2.8 billion for the fiscal half-year that ended December 2009, for Nippon Residential Investment Corporation, JPY8.7 billion for the fiscal half-year that ended November 2009.

Tokyo
Hideyasu Yamamoto
Analyst
Structured Finance Group
Moody's Japan K.K.
JOURNALISTS: (03) 5408-4110
SUBSCRIBERS: (03) 5408-4100

Tokyo
Tetsuji Takenouchi
Senior Vice President - Team Leader
Structured Finance Group

Moody's Japan K.K.
JOURNALISTS: (03) 5408-4110
SUBSCRIBERS: (03) 5408-4100

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