

May 20, 2011

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

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

ISSUER: Advance Residence Investment Corp.
Issuer Rating: A, Affirmed
Rating Outlook: Stable

RATIONALE:

Advance Residence Investment Corp. (ADR) is a real estate investment trust (REIT) specializing in residential investment. It was established in March 2010 through the merger of the former ADR and Nippon Residential Investment Corp. (NRI). The REIT's main sponsors are Itochu Corp. and Itochu Property Development, Ltd.

ADR's portfolio consists of relatively new competitive rental housing located primarily in the central Tokyo area. With assets exceeding 340 billion yen, ADR is the largest residential REIT in Japan. The properties in Tokyo's 23 wards, where population continues to grow, account for 77% of the total. The properties it holds are generally young, with an average age of about seven years. As such, the asset quality is sound. ADR's properties and tenants are widely diversified, with 183 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 achieve stable cash flow over the medium to long term. Although some concern remains regarding the performance of properties with high rents, for which demand from tenants is limited, these properties represent only a small portion of ADR's portfolio. The occupancy rates of the property portfolio as of end-April 2011 reached as high as 96.3%.

After the merger, ADR is actively reshuffling its property portfolio. The REIT is working to improve the quality and profitability of the portfolio by selling relatively old or low-performing properties and acquiring new properties at yields higher than the yield on the current portfolio. It plans to continue the portfolio reshuffle through the utilization of earnings retained from negative goodwill associated with the merger.

Although some of ADR's properties were slightly damaged by the Great East Japan Earthquake, any damage or loss that may seriously affect the operations has not been reported. ADR has only three properties in the quake-ravaged Tohoku region, which represent less than 1% of the total on an acquisition value basis. The probable maximum loss (PML) of the portfolio is low at 5.15%, showing future earthquake risk has been reduced.

While ADR's debt ratio was very high at a little more than 60% right after the merger, the REIT reduced debt with the funds raised through a public offering in June 2010. As a result, the ratio has dropped to the lower 50% range. Going forward, ADR plans to contain debt, with a target debt ratio set at 50-55%. Even this target level is somewhat high, but the solid financial profile will likely be maintained. That said, ADR is actively using the earnings retained from negative goodwill to make additional payments of dividends. This could be a factor leading to a decrease in equity capital. Instead of excessively using the retained earnings, balanced management is important.

Supported by its stable cash flow and the creditworthiness of Itochu, ADR has created a relatively solid base of funding from three mega banks, trust banks and some other major domestic financial institutions. With progress in bond redemption, one of the challenges facing ADR, outstanding bonds have decreased to 46.5 billion yen from 81.5 billion yen at the time of the merger. While ADR has used most of its properties as collateral for loans, it seems to have made arrangements to release the collateral. Nevertheless, ADR has issued huge amounts of bonds that will become due in the next year or two. At present, the average maturity of ADR's debt is less than two years, which is relatively short, and ADR has borne high borrowing cost for the debt it has taken over from NRI, leaving significant scope for improvement.

The Rating Outlook is Stable. The stable cash flow, well-diversified portfolio and strong support of

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp> E-mail infodept@r-i.co.jp

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

sponsors with proven track records are among ADR's advantages. While the debt ratio is slightly high, it is expected to be kept in the lower 50% range. Meanwhile, there are some issues from the funding aspect. ADR's continued efforts to address these issues will be the biggest focus of attention.

The primary rating methodologies applied to this rating are provided at "Rating Methodology for J-REIT" 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/sf/about/methodology/index.html>

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

R&I RATINGS:

ISSUER: Advance Residence Investment Corp. (Sec. Code: 3269)
Issuer Rating
RATING: A, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.7	Issue Date	Maturity Date	Issue Amount (mn)
	Feb 09, 2007	Feb 09, 2012	JPY 12,000
RATING:	A, Affirmed		

Unsec. Str. Bonds No.9	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 13, 2007	Sep 13, 2011	JPY 10,000
RATING:	A, Affirmed		

Unsec. Str. Bonds No.10	Issue Date	Maturity Date	Issue Amount (mn)
	Sep 13, 2007	Sep 13, 2012	JPY 4,800
RATING:	A, Affirmed		

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Nov 21, 2007	Nov 21, 2011	JPY 5,000
RATING:	A, Affirmed		

Unsec. Str. Bonds No.2	Issue Date	Maturity Date	Issue Amount (mn)
	Nov 21, 2007	Nov 21, 2012	JPY 5,000
RATING:	A, Affirmed		

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
 Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp> E-mail infodept@r-i.co.jp

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.