Rating Action: **Moody's upgrades Advance Residence REIT to Baa1; outlook stable**

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Tokyo, June 15, 2011 -- Moody's Japan K.K. has upgraded to Baa1 from Baa3 the senior unsecured long-term debt ratings of Advance Residence Investment Corporation.

The outlook for the rating is stable.

RATING RATIONALE

This upgrade reflects the considerations that:

1) ADR's financial flexibility will increase due to the de-collateralization of all its loans; a process which began in March 2010,

2) the consequent termination of the subordination role of ADR bonds, and

3) leverage has improved because debt repayments and asset 'replacements.'

The stable outlook is based on Moody's view that the cash flow from ADR's portfolio -- and which amounts to approximately JPY 340 billion and comes mainly from residential properties -- will be stable, that ongoing asset replacements will enhance profitability, and that the company's conservative financial management will remain focused on achieving further improvements in its financial fundamentals.

After the merger with former Nippon Residential Investment Corporation in March 2010, ADR's 169 properties, except for those purchased after March 2010, became categorized as collateral.

But after discussion with lenders, ADR de-collateralized all those properties classified as collateral on June 15, 2011.

This development enhanced its financial flexibility and ended the subordination role of its bonds.

ADR has implemented asset replacements in the 16 months since its merger. These replacements comprised the disposition of 19 properties with a 4.9% NOI yield and the purchase of 14 properties with a 6.2% NOI yield.

Thus, there has been an increase in the NOI yield, a refurbishment of properties, and the establishment of a more robust level of cash flow.

The latter has been achieved through an increase in the number of properties in metropolitan areas, mainly so-called single-type properties which yield stable cash flows.

And de-collateralization enhances the flexibility of portfolio management because there are no longer any constraints on asset disposition.

Financial leverage has improved to 52.4% (total debt to assets ratio), down about 10 percentage points since the merger. Asset replacements and debt repayments have improved Net Debt/ EBITDA to 10-11x.

ADR is targeting an LTV of 50-55%, as announced after the merger. But, even with the improvement in financial leverage, Moody's considers this level as high for a J-REIT.

ADR's ratings could be pressured upward due to 1) enhancements to liquidity due to increases in cash on hand and commitment lines, 2) more extensions in the maturities of and diversification in debt, and 3) improvements in leverage through further falls in debt.

The ratings would be upgraded if the amount of cash on hand and commitment lines covers about 80% of debt due in one year, maturities for about 10% of total debt due each fiscal term are prolonged, and Net Debt / EBITDA falls below 10x, while Debt to total assets are below 50%.

ADR's ratings could be pressured downward if the deterioration in market conditions further damages earnings; or debt rises due to changes in its investment and financial policies, and its leverage and balance sheet worsen.

The rating would be downgraded if ADR was unable to keep Net Debt / EBITDA above 12x and debt to total assets below 55%.

The principal methodology used in this rating was Moody's Global Rating Methodology for REITs and Other Commercial Property Firms published on October 1, 2010, and available on www.moodys.co.jp.

Advance Residence Investment Corporation, headquartered in Tokyo, is a Japanese REIT that invests in and manages residential properties. Its operating revenue for the fiscal period (11 months) that ended in January 2011 was approximately JPY 20.9 billion.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's information.

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Moody's considers the quality of information available on the issuer or obligations satisfactory for the purposes of maintaining a credit rating.

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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

Moody's Japan K.K.
Atago Green Hills Mori Tower 20fl
2-5-1 Atago, Minato-ku
Tokyo 105-6220
Japan
JOURNALISTS: (03) 5408-4110
SUBSCRIBERS: (03) 5408-4100