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| Kenedix Realty Investment Corporation | |
| Rating of Long-Term Senior Debt: A+ | |
| Rating Outlook | : Stable → Negative |
| Ratings on Bonds | : A+ |
| Rating of Shelf Registration | : A+ |

【Rationale】

1. Brief description about Kenedix Realty Investment Corporation (“the Company”)

The Company, one of the Japan Real Estate Investment Trust (J-REIT), was incorporated on May 6, 2005 and was listed on the Tokyo Stock Exchange (Real Estate Investment Trust Stock Market). The shareholders and holding share of the Kenedix REIT Management, Inc., (“KRM”), asset-management firm, is 90% by The Kenedix, Inc. (“Kenedix”) and 10% by the ITOCHU Corporation (“ITOCHU”).

The Kenedix was incorporated in 1996 and was listed on the Osaka SE Hercules Market in 2002 and was further listed on Tokyo SE Second Div. in 2003 (up-graded to First Div. in 2004). The main-business line of the Kenedix is the management of real estate investment fund.

The principal staffs and managements of the KRM were chiefly seconded or transferred from the Kenedix which has vaunted of plenty experiences and achievements as a front runner in the real estate assets management business in Japan. The KRM had been a wholly owned subsidiary of the Kenedix but on Dec.19, 2008 ITOCHU acquired 10 % share of KRM from the Kenedix for strengthening and stabilizing the growth strategy of the Company.

The participation of the ITOCHU, a major trading firm (Sogo Shosha), does not change the investment management policy of the Company. At the present stage, it is not yet apparent of the detail of collaboration with ITOCHU and its effect. JCR will closely watch the possible impact on the business management of the Company in the future.

Whilst the Company is categorized as a general type REIT, covering from office building to residential and retail properties, at present the Company is focusing as a core investment to medium scale office buildings in which field the Kenedix group has vaunted of plenty investing performance in the fund management business.

As to the performance of the overall portfolio of the Company, the problem stem from the property leasing business has not yet become evident even under the deterioration of the current real estate market. On the other hand, when we look into the situation of the individual property, the impact to which environmental changes such as rent level or occupancy ratio would bring about is not same depending upon its competitiveness such as location or building’s specifications. At present there are some sporadic cases observed where the appraisal value has dropped due to the



deterioration of the competitiveness related to the revenue perspective.

As to the financial condition, refinancing of the borrowing is proceeding smoothly thanks to the maintenance of good relationship with the financial institutions which have been appreciating conservative leasing management or relatively low level LTV of the Company even under the deterioration of the current real estate financing which was caused by the eruption of the sub-prime problem. On the other hand, since the turn-around of the business environment is hardly expected, it is necessary to watch closely the impact on the management and borrowing condition of the Company which would be brought about by the price drop of real estate in addition to the development of the leasing business.

Having taken the afore-mentioned into account, JCR has affirmed the rating of the Company as “A+” and revised the rating outlook to negative.

2. The current situation of the portfolio

The current portfolio consists from 69 properties (office building 60, residential 7, retail properties 2) and the total aggregate acquisition amount is ¥222.1 billion. The Company has been achieving a certain external growth by utilizing the sponsor support including the development project by the Kenedix, though the external growth through the acquisition of new properties has been slow down due to the deterioration of the business environment caused by the sub-prime problem as well as the majority of the other REIT.

On the other hand as to the internal growth, JCR considers that a certain appreciation would be possible for the current situation that the Company has been able to maintain stable operating ratio and to maintain or even to increase the leasing revenue through the cost control. The Company has been adopting various measurements such as a quick and effective attendance to the end tenant through an integration of the PM (Property Management) operation by the KRM, thrift of repairing costs by calling a open bid after gathering plural number of properties, group management by integrating BM (Building Maintenance) company and promoting dialogues with the tenant via Customer Satisfaction (CS) survey.

About the diversification of the portfolio, as at the end of the 7th term (Oct.31, 2008), the largest property in the portfolio, “KDX Harumi Building”, stands at about 4.6% to the total acquisition amount of the portfolio and the concentrated ratio of the top ten properties remains at 35.3 %. And as to the diversification of the tenant, the single largest end-tenant is 2.1 % (leasing space basis) and the cumulative ratio of top three is 5.4 %. Hence it is considered that the portfolio of the Company is maintained with well diversified risks.

As to the occupancy ratio, the Company has been keeping more than 90 % occupancy ratio with respect of the overall portfolio since the listing to the Stock Exchange. As at the end of the 7th term, the overall occupancy ratio is 95.6 %, out of which the office building is about 95.7 %, residential is about 94.7 %, central urban retail properties is about 96.7 %, Tokyo metropolitan area is about 96.5 % and local area is about 93.0 %. The occupancy ratio of the local area is declining but the portfolio as a whole keeps considerably high and stable occupancy ratio.



Among the properties acquired by the Company, some properties were acquired at the time when the leasing risk was revealed such as under-developing property (KDX Harumi Building) or properties of which all existing tenant left (KDX Jimbocho Building).

According to the past track record, the rise of the occupancy ratio of those pre-completed properties were realized within a short time, the reasons of which are ascribed to that the Company examined carefully about the possibility of leasing-up at the time of acquisition of the properties and quick service offering by KRM through the integration of PM business.

In general, the tenant's cancellation rate of a medium scale office building is relatively high compared with a large scale office building, in other words the average tenure of the tenancy contract is relatively short. With this feature, at the time of change of the tenant, the correction of rent level to the then current market level will be made within a short time of period when the leasing market of the office building is buoyant and on the contrary the rent falls faster when the real estate market is slack.

As to the portfolio of the Company, so far the increase of the rent has been achieved thanks to the buoyant real estate market. During the 7th term, the increasing rate of the new rent is 11.3 %, though diminishes from the 6th term increasing rate of 21.6 %. On the other hand, the increasing rate of the renewal rent of 7th term is 10.3 % and compared with the increasing rate of 7.5 % in the 6th term, the increase of the renewal rent has been continuing.

The increase of the rent is ascribed chiefly to the internal growth, along with a further deterioration of the market, it might be necessary to anticipate the decline of the new rent as well as the renewal rent depending on the individual property. Since the degree of the diversification of the current properties and tenant of the Company is very high, it is unlikely that the profitability of whole portfolio will immediately worsen.

In case the market further deteriorates or the slack of the market prolongs for the longer period, in order to hold the decline of the real estate management revenue of the Company to a minimum, JCR will closely watch what kind of managerial measurements with respect of the rent and occupancy ratio will be taken by the KRM in the future negotiation with the each tenant. On the basis of the appraisal amount, the appraisal profit of the whole portfolio was ¥20.1 billion in the 6th term and decreased drastically to ¥11.6 billion in the 7th term. As the current real estate market is still in downward trend, it is not deniable that the appraisal profit of the portfolio will further decrease.

3. Financial Situation

Since after the listing on the stock exchange, the whole amount of the debt financing has been obtained on the unsecured and non-guaranteed basis and procured chiefly long-term fund at fixed interest rate (As at Dec.11, 2008, the long-term interest bearing liability ratio stands at about 92.9 %, average duration is about 2.5 years). And the relatively stable LTV level (in the immediately last 3 terms, it ranges between 35.3 %, 38.9 %, 41.2 %, though it is slightly rising but still staying at lower level).

The fixation of the debt interest rate (as of Dec.11, 2008, the ratio of the fixation is about 92.9 %), the diversification



of fund procurement sources (at the end of 7th period, the number of financial institutions is 11 institutions and the largest fund providing financial institution is Sumitomo Mitsui Banking Co. (about 19.2 % of total funding amount including Investment Corporation Bonds)) and the repayment schedule is also diversified, hence JCR considers that a certain degree of flexibility against refinance risk is ensured by the Company.

In the 7th term, ¥19.25 billion was appropriated to make repayment; out of which ¥17.75 billion was refinanced (the differential of ¥1.5 billion was repaid from the retained cash). And further more ¥10.5 billion was newly procured in the 7th term. In the 7th term, the total amount of ¥28.25 billion was procured and 80.5 % of that amount was long-term fund. The Company has successfully achieved to shift its borrowing to long-term and to maintain a fairly good relationship with the financial institutions even under the current deteriorating real estate financing market.

At point of this time, it could be possible to appreciate the Company about its financial situation and flexibility against the refinancing risk of its borrowing. In the future, it is presumed that the real estate market will further deteriorate (in such case, the LTV level in term of the current market price will rise due to the drop of the occupancy ratio as well as the rent and also fall of the properties appraisal value). Hence it is still conceivable that the environment of the real estate financing will deteriorate, JCR considers that it is necessary to closely watch the financial condition of the Company including its refinancing.

4. The brief description of the major properties which were acquired recently

(1) A-56 “KDX Jimbocho Building”

This building is a office building, completed in May 1995 and 15 years old, and locates at a distance of 1 minute on foot from the “Jimbochou” subway station of the Hanzomon Line of the Tokyo Metro, the Shinjuku Line and the Mita Line of the Tokyo Toei Subway. As the building is connected to three subway lines, traffic convenience is very high including accessibility to other main office areas. This property is a condominium building and the Company owns from Basement 1st Floor to Upper 7th Floor (87.15 % of the total exclusive occupation area).

The site locates facing to “the Hakusan Avenue” in the vicinity of the “Jimbochou Intersection” where “the Hakusan Avenue” crosses “the Yasukuni Avenue “. This area is well developed as an office building area consisting of a lot of medium small office buildings with tenant of printing related firms. A steady demand could be expected but on the other hand there are many medium size office buildings in the surrounding area and a somewhat contrivance in the property management is required for maintaining stable occupancy ratio, though this site has superiority as locating nearest to the subway stations. This property was acquired through the own network of KRM. Before a single tenant were occupying this property but they left and the property became vacant (0 % occupancy ratio) when the Company acquired.

As at the end of the 7th term, the occupancy ratio have been risen to about 60 %, JCR will closely watch how KRM will acquire new tenants on what terms and conditions in the backdrop the demand for office space is declining



caused by the deterioration of macro economic environment.

Date of acquisition: March 31, 2008

Acquisition price: ¥2.76 billion

Appraisal value at acquisition: ¥2.77 billion

Appraisal value at the end of 7th term: ¥2.66billion

Capitalization rate at the end of the 7th term (appraisal):5.3%

(2) A-58 “Sakae 4-Chome Office Building (Tentative Name)”

This property locates at a distance of 3 minutes walk from “Sakae-machi” station” of Meitetsu Seto line and “Sakae” station of Higashiyama subway line and Meijou subway line of Nagoya City Subway. It takes about 4 minutes by subway train from “Sakae” station to “Nagoya” station. The property locates at very convenient area. Also the property is facing to the main avenue of “Hirokoji Door” which runs through the Nagoya City from the east down to the west and this area is visually distinguishable area. The relevant site belongs to the “Sakae Area” which is one of the 4 major business areas (Meieki Area, Fushimi Area, Sakae Area and Marunouchi Area) as recognized in Nagoya.

In the “Sakae Area”, many large commercial facilities gather and the neighboring area constitutes the well developed where mass-media related firms including a broadcast station are locating, representing as office area of Nagoya. However in recent days, as large office buildings are supplied one after another in the “Meieki Area”, the center of office area of Nagoya is moving to the vicinity of the Nagoya Railway Station. It might be necessary to note these changes of the area characteristic when assuming the office demand.

This property was acquired by utilizing the support line of the Kenedix Group. On the site (acquired by this Company on April 25, 2008), an office building with tenant shops space is under construction and is scheduled to complete on June 18, 2009.

Upon completion of this building, the Company shall acquire the building for the amount of ¥4,325 million. The acquisition amount of this property will be 4th highest among every portfolio.

The acquisition fund shall be procured by borrowing and own fund. Though this fund raising plan is confirmed through interviews with KRM, JCR closely watches on what conditions the actual fund procurement will be made in the backdrop of deterioration of real estate financing market. About the terms and conditions of the leasing contract of this property, it is scheduled to conclude the master-leasing contract which guarantees the rent with the vendor of this building for one year after the delivery of the building.

In recent days, new entry or removal for expansion by firms have been active, thanks to the vigorous economy and boom of auto-mobile related industries including The Toyota Motor Corp. in Nagoya district. The demand from tenant exceeded over the supply and the vacancy rate of office space drastically fell. Under these circumstances and in an anticipation of rise of rent, such demand for re-construction of the existing buildings have been gradually mounting and many new development or re-construction of office buildings have been planned. However, by the



series of occurrence of sub-prime loan problems, which became apparent in the latter half of 2007, the global economy especially US economy are affected adversely and it became apparent that the automobile related industries, which have been pulling the Nagoya area economy, are also severely damaged.

By these affections, the demand for relocation or expansion of office turned to wane from the spring 2008. The demand for office itself is now declining, so it would be conceivable that the gap between the demand and supply will expand to a certain extent. JCR considers that it is necessary to watch especially the tenant leasing situation of this property.

Date of acquisition: April 25, 2008

Amount of acquisition: ¥4,000 million (Land Price)

Appraisal value at the time of acquisition: ¥4,180 million

Appraisal value at the end of 7th term: ¥4,180 million

(3) A-60 “KDX Harumi Building”

This building is a one year old new building, completed in February 2008. It locates at a distance of 9 minute walk from the “Kachidokibashi” subway station of Oedo Line of the Tokyo Toei Subway. The “Harumi Area”, the site locates, is belonging to seaside area and constructions of city and street complex have been under way. This property was acquired through the support line of the Kenedix group. The building has about 261 tsubo (861 square meters) standard floor area equipped with the latest specifications and facilities. This property is the largest investment of the Company’s portfolio, being 4.6 % of the investment ratio.

This seaside area had been reclaimed since Edo Era. Especially the “Harumi Area”, to which the relevant site belongs, had been started to reclaim in Meiji Era and the cities and streets had been gradually constructed. In before only the bus service by Tokyo Metro City was available as a public transportation. The traffic infrastructures have been completed such as the opening of Toei Subway Oedo line in the year of 2000. In recent days, this area has been gradually recognized as an office area by the completion of “Harumi Island Triton Square”, “Grass City Harumi” and etc. In the surrounding area of this property, multiple number of high-rising mansions are under construction including re-development plans led by the Urban Renaissance Agency(“Harumi 3-Chome West District First City Zoning Re-development”, complete in the year of 2013). Residential facilities and business facilities are gathering and cumulating in this area.

As to the terms and conditions of the leasing contract, the Company concluded a master lease agreement with the Kenedix, being sponsor, for the first one year after the acquisition of the property so that the fixed rent would be paid even to the vacant space. In this way, the leasing risk of a new office building is hedged to a certain extent. The occupancy ratio at the time of acquisition was 37.1 % but 4 months later it became 100 % at the end of October 2008.

Though this area locates at a distance of 3~4 km from the center of Tokyo such as Ginza, Otemachi and Marunouchi, the degree of recognition as an office area is still low. Therefore the competitiveness of location is regarded to be



rather weak.

On the other hand, the initial rent was fixed at relatively reasonable level in spite of being high specification equipped building. As a result, full occupancy ratio could be achieved with reasonable rent level for a short while. Likewise, it could be appreciated that the marketing power of KRM, with respect of tenant targeting or leasing policy in leasing business operation, has converted the negative aspect of this property, such as the low recognition of location, into soliciting power to tenant through setting an appropriate rent level. In the future, the potential of the location of this property can be expected along with the progress of developing plans but on the contrary the competition in or out of this area may intensify. JCR will closely watch how KRM will manage this property.

Date of acquisition: June 30, 2008

Amount of acquisition: ¥10,250 million

Appraisal value at the time of acquisition: ¥10,500 million

Appraisal value at the end of 7th term: ¥10,700 million

Capitalization rate at the end of the 7th term (appraisal): 4.6 %