

Rating Action: Frontier Real Estate Investment Corporation

Moody's reviews ratings of 12 J-REITs for possible downgrade

Tokyo, January 15, 2009 -- Moody's Investors Service has placed the ratings of 12 J-REITs under review for possible downgrade.

- Japan Real Estate Investment Corporation; Aa3 issuer rating and unsecured long-term debt rating
- Japan Retail Fund Investment Corporation; A1 issuer rating and unsecured long-term debt rating and P-1 short-term debt rating
- Frontier Real Estate Investment Corporation; A1 issuer rating, currently on review for direction uncertain
- Nippon Accommodations Fund Inc.; A1 issuer rating and unsecured long-term debt rating
- Nomura Real Estate Residential Fund, Inc.; A1 issuer rating
- Japan Excellent, Inc.; A2 issuer rating
- TOKYU REIT, Inc.; A2 issuer rating and unsecured long-term debt rating
- Hankyu REIT, Inc.; A2 issuer rating
- Top REIT, Inc.; A2 issuer rating
- United Urban Investment Corporation; A3 issuer rating
- MORI HILLS REIT INVESTMENT CORPORATION; A3 issuer rating and unsecured long-term debt rating
- Premier Investment Company; A3 issuer rating and unsecured long-term debt rating

These reviews reflect Moody's concerns that 1) J-REITs -- specifically, their fund-raising ability -- have been significantly affected by the global financial turmoil; 2) the current credit crunch may last some time; and 3) the asset value of the properties in their portfolios and stability of cash flow may be stressed.

The rating actions will reflect each REIT's financial management discipline and portfolio strategy, and the potential impact of the adverse environment on each.

Japan's real estate market has been considerably affected by the global credit crunch. The REITs have been particularly affected and are facing difficulty raising funds from financing institutions and the capital market. Financial institutions are growing ever more reluctant to provide loans, which is leading to widening spreads and shorter loan terms. The REITs are also finding it difficult to issue bonds due to a shrinking investor base.

Since so many REITs are having problems raising funds from the equity market, Moody's is concerned that the credit quality of their debt may deteriorate significantly if this situation persists. They may find it difficult to cut the ratio of interest-bearing debt to total assets by issuing new shares; this would extend lenders' reluctance to provide loans. Moody's thereby believes that such REITs should implement more conservative financial policies.

In addition, the REITs may revamp their portfolio growth strategies. The ratings assigned to REITs may have been supported by growth expectations and portfolio diversification. Given the current difficulties of raising funds from the equity, portfolio growth is no longer likely. Thus, the ratings will be reviewed based on the portfolios' current value and diversification.

Furthermore, given the concerns of recession and lenders' growing reluctance to extend loans to real estate, real estate prices may decline, for the first time since initiation of the REIT market. This may also negatively affect the portfolios' occupancy rates and rents. The portfolios of many of the rated REITs listed at earlier

stages still have significant unrealized gains; those of many others, however, will have less in the way of unrealized gains, and their equity capital may be stressed by the decline in real estate prices.

In its review, Moody's will focus on 1) the extent to which the credit crunch has negatively affected the REITs' compositions and ability to raise funds from financial institutions and whether they can raise funds to refinance debt that will come due in the near future or to finalize the purchases they have already contracted for; 2) whether the REITs can maintain conservative ratios of interest-bearing debt to total assets and the current composition of their long- and short-term debt, or if they can present action plans to improve the ratios, 3) the extent to which their portfolio growth strategies are negatively affected, and 4) countermeasures and tolerance to the shrinking prices of the real estate in their portfolio and stressed cash flow.

A list of the most recent rating action for each REIT follows.

- Japan Real Estate Investment Corporation, issuer rating and unsecured long-term debt rating upgraded to Aa3 from A1 on June 6, 2008

- Japan Retail Fund Investment Corporation, issuer rating and unsecured long-term debt rating upgraded to A1 from A2 on February 5, 2007

- Frontier Real Estate Investment Corporation, A1 issuer rating assigned, and plus under review (uncertain direction) on February 19, 2008

- Nippon Accommodations Fund Inc., A1 issuer rating assigned on December 4, 2006

- Nomura Real Estate Residential Fund, Inc., A1 issuer rating assigned on July 18, 2007

- Japan Excellent, Inc., issuer rating and unsecured long-term debt rating upgraded to A2 from A3 on January 25, 2007

- TOKYU REIT, Inc., A2 issuer rating and unsecured long-term debt rating assigned on September 6, 2005

- Hankyu REIT, Inc., A2 issuer rating assigned on May 31, 2006

- Top REIT, Inc., A2 issuer rating assigned on October 3, 2006

- United Urban Investment Corporation, A3 issuer rating assigned on November 7, 2006

- MORI HILLS REIT INVESTMENT CORPORATION, A3 issuer rating and unsecured long-term debt rating assigned on October 30, 2006

-Premier Investment Company, A3 issuer rating and unsecured long-term debt rating assigned on July 14, 2005

The methodologies used in rating REITs are the "Key Ratios for Rating REITs and Other Property Firms," December 2004, and "Rating Methodology for REITs and Other Commercial Property Firms," January 2006, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil, December 2008" can be found at www.moodys.com.

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