



## Press Release

### Structured Finance Ratings & Research

---

For immediate release

Media Contact: Kyota Narimatsu

Tel: (81) 3-4550 -8411

Fax: (81) 3-4550 -8740

Marunouchi Kitaguchi Bldg. 28F, 1-6-5 Marunouchi,  
Chiyoda-ku, Tokyo 100-0005  
tokyo\_pressroom@standardandpoors.com

#### ***S&P Assigns 'A-/A-2' Ratings To ORIX JREIT Inc.; Outlook Stable***

**Tokyo, Oct. 24, 2006** – Standard & Poor's Ratings Services said today that it had assigned its 'A-' long-term and 'A-2' short-term corporate credit ratings to ORIX JREIT Inc. (OJR). The outlook on the long-term corporate credit rating is stable.

The ratings reflect OJR's above-average business position and conservative financial profile and financial policy. The company is currently the sixth-largest Japanese real estate investment trust fund (J-REIT) in terms of asset size, based on portfolio purchase price. As of the end of September 2006, OJR owned a portfolio comprising 40 relatively new properties mostly occupied by tenants, including office buildings, retail properties, a hotel, residential properties, and a distribution facility.

OJR is recognized within the J-REIT market as a diversified REIT with a diverse portfolio featuring five types of property asset, mainly office buildings. It mainly invests in midsize properties. OJR's high-quality portfolio is backed by the strong real estate expertise and development capabilities of its sponsor and sponsor-related companies. OJR maintains relatively solid liquidity, underpinned by its relatively conservative capital structure and above average profitability. However, the rating is partially constrained by concerns, including the company's relatively aggressive strategy to include a diverse range of asset types in its portfolio, such as a hotel.

The ratings also take into account the unique structure of J-REITs compared with REITs rated by Standard & Poor's in other global markets, which restricts management from pursuing certain high-risk activities, such as ground-up development, to safeguard investors.

OJR was established in September 2001 and was listed on the Tokyo Stock Exchange in June 2002. ORIX Corp. (A-/Stable/--) is a sponsor of OJR's asset-management company, ORIX Asset Management Corp. (OAM). In addition, ORIX Life Insurance Corp. (A-/Stable/--) had made an 8.79% investment in OJR as of the end of August 2006. Having only one sponsor has not limited the company's ability to grow, with OJR having acquired 16% of its properties from third parties.

OJR has replaced some of the properties in its portfolio in order to improve its quality, and has sold 17 properties since its June 2002 listing. Investment areas for the current portfolio include central Tokyo and its surrounding areas, Nagoya, and Osaka. The 40 properties in the portfolio have a total net rentable area (NRA) of 72,742 tsubo, and are occupied by 292 tenants. The portfolio's value stands at ¥195.9 billion in terms of purchase price, and at ¥201.2 billion in terms of appraisal value. Of the 40 properties, 33 are office properties, including relatively large buildings such as the Seafort Square/Center Building (Higashi-Shinagawa, Shinagawa Ward, Tokyo) and Round-Cross Shinsaibashi (Chuo Ward, Osaka city). The portfolio also includes two retail properties, three residential properties, one hotel, and one distribution facility. The hotel, Yokohama Sakuragicho Washington Hotel, located in the Cross Gate hotel, retail and office complex, is managed by Fujita Kanko Inc. The distribution facility, Koshigaya Logistics Center, is relatively new and

is located inside a large distribution complex in the city of Koshigaya, Saitama Prefecture. Standard & Poor's will continue to monitor the performance of the hotel, given that Fujita Kanko is a master lessee for the hotel as well as the largest tenant in the portfolio.

By property type, OJR will allocate at least 80% of its investment portfolio to office properties based on purchase price, and make detailed selective investments in other types of property, including retail properties, hotels, and residential properties. The current composition of the property portfolio is consistent with this targeted range. In 2005, OJR implemented measures to introduce its new investment policy, dubbed OJR WAY, and to enhance its cooperative relationships with ORIX group companies, dubbed ORIX synergy, with the ultimate aim of incorporating higher quality properties into its portfolio. Based on these measures, OJR plans to leverage the knowhow of group companies, and to invest in assets including warehouses, distribution facilities and ownership of leased land. In addition, OJR may allocate up to 20% of its portfolio, based on purchase price, to the aforementioned asset types, as well as properties that are not yet completed.

Geographically, OJR's strategy is to allocate 80% or more of its portfolio in certain districts within the Tokyo metropolitan area, which again is in line with the current composition of the property portfolio. Standard & Poor's does not regard asset concentration in Tokyo and adjacent areas as a credit concern, given the centralization of Japan's political and economic functions, which makes the aforesaid real estate market the largest and most liquid in the nation. Although investment in assets with a wide range of uses may require more complicated and sophisticated portfolio management, Standard & Poor's considers that such concerns are mitigated to some extent by the utilization of the ORIX group's real estate expertise, and by the limited proportion of non-office assets. Moreover expectations for some diversification effects arising from the inclusion in the portfolio of assets with a wide range of uses mitigate some operational concerns.

With regard to earthquake risk, the probable maximum loss (PML) of each property within the portfolio ranges between 3% and 18%, so the aggregate portfolio risk is somewhat limited. The weighted average property age is 11 years, which is considered to be relatively low. Moreover, when OJR owns 100% of ORIX Akasaka 2-chome Building, scheduled to be purchased soon in addition to the existing properties in the portfolio, the weighted average property age will fall to 10 years. Most of the properties are well located and well maintained, and many have been refurbished in order to meet tenant demand. As of the end of August 2006, the average portfolio occupancy rate was approximately 96.5%, and portfolio rent levels were consistent with submarket rents, mitigating exposure to declines in rental income.

There is a degree of tenant concentration in the portfolio, as the 10 largest tenants currently contribute about 28% of the portfolio's annual rent income. However, this revenue concentration is not a concern, given that it is expected to decline as the portfolio grows. Assets are adequately diversified in the portfolio, with Seafort Square/Center Building comprising 9.2% of the total portfolio value, followed by Cross Gate (7.7%), and Round-Cross Shinsaibashi (6.9%). All of the other assets are below 6.0%. Following its purchase, ORIX Akasaka 2-chome Building will be the largest property, comprising 10.5% of the total portfolio value. However, asset concentration risk will be offset by the good location of this building, its superior specifications, the stable cash flows that it generates and its competitive position in its submarket.

OJR's strategy is to enlarge its portfolio (while maintaining above-average asset quality) at a moderate pace. It has achieved an annual growth rate of about 20%, and is aiming for an asset size of ¥300 billion over the medium to long term, though it has not yet announced a specific timeframe for this goal. During the 10th six-month business term (fiscal period ending February 2007), OJR plans to acquire the remaining 60% of ORIX Akasaka 2-chome Building. It is also aiming to purchase Shinjuku 5-chome Building during the 11th business term (fiscal period ending August 2007). Standard & Poor's believes that OJR will continue to grow externally at a solid and modest pace.

Following an inspection by the Securities and Exchange Surveillance Commission in March 2006, the Kanto Local Finance Bureau and the Financial Services Agency imposed business improvement orders on OJR and OAM, respectively, in July 2006. OJR received administrative disciplinary action for failing to hold appropriate board of directors' meetings, and OAM for inadequate assessment of properties in OJR's portfolio, among others. Both companies formulated measures to improve their property acquisition activities and the management of board meetings, and made efforts to improve their compliance systems, aiming to clarify the apportioning of responsibility. The administrative orders are not expected to have a negative impact on the ratings, due to the minimal impact on OJR's cash flow and financial profile, and due to the company's efforts to bolster its compliance system by reorganizing its

operation and management. Nevertheless, Standard & Poor's will need to monitor compliance and internal control conditions at both companies.

OJR's current debt-to-capital ratio (total debt/ total debt + unitholders' capital) stood at 39% as of the end of August 2006. OJR's management expects to maintain the ratio at 40% to 50%. To fund future property investments, OJR anticipates a strategy of timely equity issues aimed at stabilizing its leverage. OJR has made two previous equity issues, thereby exhibiting an adequate track record in this regard. With its solid financial profile, the company's EBITDA interest coverage, based on attractive current financing costs, is expected to remain between 9x and 13x. The profitability of the portfolio is relatively high, with ROA at 4.5% to 5.4% and ROE at 5.6% to 6.5%. As of the end of August 2006, long-term borrowing accounted for 66% of total borrowings, and fixed-rate borrowings for 88%. OJR has a degree of refinancing risk, as it has about ¥25 billion in borrowings with repayment due March 2007. But this is not regarded as a major concern, due partly to its good relationship with 25 financial institutions in Japan.

OJR's current liquidity is sound, with long- and short-term credit available to meet the company's near-term debt maturities, as well as to expand its portfolio. As of August 2006, OJR had approximately ¥16.9 billion in cash and cash equivalents, and commitment lines worth ¥30 billion, sufficient to cover immediate operating expenses, including security deposit liabilities. OJR's financial flexibility is considered high, reflecting its sound relationships with many financial institutions, from which it increasingly borrows on an unsecured basis.

OJR's diverse, high-quality asset portfolio should generate stable income. With the support of its sponsor group, OJR is expected to maintain an above-average asset quality as its portfolio grows. Although OJR's financial ratio may vary as it pursues acquisitions of properties, its financial profile is expected to remain within the range mentioned above, under conservative leverage control.

A Japanese-language version of this media release is available on Standard & Poor's Research Online at [www.researchonline.jp](http://www.researchonline.jp), or via CreditWire Japan on Bloomberg Professional at SPCJ <GO>.

**Analytical Contact:**

Yumi Oikawa, Tokyo  
(81) 3-4550- 8775  
[yumi\\_oikawa@standardandpoors.com](mailto:yumi_oikawa@standardandpoors.com)

**Media Contact:**

Kyota Narimatsu  
(81) 3-4550-8411  
[tokyo\\_pressroom@standardandpoors.com](mailto:tokyo_pressroom@standardandpoors.com)

Roko Izawa, Tokyo  
(81) 3-4550- 8674  
[roko\\_izawa@standardandpoors.com](mailto:roko_izawa@standardandpoors.com)

Standard & Poor's, a division of The McGraw-Hill Companies (NYSE:MHP), is the world's foremost provider of financial market intelligence, including independent credit ratings, indices, risk evaluation, investment research and data. With approximately 7,500 employees, including wholly owned affiliates, located in 21 countries and markets, Standard & Poor's is an essential part of the world's financial infrastructure and has played a leading role for more than 140 years in providing investors with the independent benchmarks they need to feel more confident about their investment and financial decisions. For more information, visit <http://www.standardandpoors.com>

#####