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Outlook On 'A-' Rating On ORIX JREIT Revised To Positive From Stable

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TOKYO (Standard & Poor's) Aug. 8, 2008--Standard & Poor's Ratings Services today revised to positive from stable the outlook on its 'A-' long-term corporate credit rating on ORIX JREIT Inc. (OJR). The outlook revision is based on the improved quality and diversification of OJR's portfolio, its increased cash flow stability, and its reinforced business profile, resulting from the acquisition and replacement of assets in the company's portfolio. It also reflects OJR's relatively conservative financial policy, which is based on maintaining appropriate leverage control while pursuing external growth and improving financial flexibility by reducing secured borrowings. At the same time, Standard & Poor's affirmed its 'A-' long-term and 'A-2' short-term corporate credit ratings on OJR.

OJR was listed on the Tokyo Stock Exchange in June 2002 and is recognized within the J-REIT market as a diversified REIT, whose portfolio features five types of property asset. ORIX Corp. (A-/Stable/--) and Daikyo Inc. (NR) are the sponsors, with Daikyo becoming a sponsor in March 2008.

As of the end of its 12th business term (ended Feb. 29, 2008), OJR's portfolio consisted of 43 properties valued at an aggregate of about ¥231.1 billion in terms of purchase price. Thereafter, the company purchased four properties from ORIX group companies, including the ORIX Shinagawa Building located in Tokyo's Minato-ku for ¥15.2 billion. This increased the number of properties in the portfolio to 47 and the total portfolio value to about ¥262.4 billion as of July 31, 2008. The portfolio comprises 39 office

buildings, two distribution facilities, two retail properties, one hotel, and three residential properties. OJR is achieving steady external growth backed by the strong real estate expertise and development capabilities of the ORIX group companies. Meanwhile, OJR has sold 18 properties since being listed on the Tokyo Stock Exchange, mainly those that offer limited scope for increased profits and those whose competitiveness is deteriorating. OJR improved the quality and stability of its portfolio by reorganizing its assets.

OJR's asset expansion has led to greater tenant diversification. OJR's tenant concentration risk is improving; Fujita Kanko Inc., the largest tenant in its portfolio, accounted for about 7.7% of the portfolio's total rentable area as at the end of the company's 12th business term. Furthermore, while the rating on OJR was partially constrained by concerns over its hotel investments and its relatively aggressive asset-type diversification strategy, such concerns were mitigated somewhat by clarification of the company's investment policy. OJR's strategy is to ensure that 80% or more of its portfolio investment is allocated to office buildings, with the remainder mainly allocated to highly versatile distribution facilities leased under medium- or long-term contracts designed to secure stable cash flow. Accordingly, OJR's portfolio mainly comprises properties located in the Tokyo metropolitan area, and the weighted average property age of the portfolio was relatively low at about 10.5 years as of the end of the company's 12th business term. In addition, the average occupancy rate of the property portfolio stood at 97.8%, generating stable cash flows.

J-REIT investment unit prices have faced adjustments since last year due to changes in the domestic and overseas debt and capital markets. Nevertheless, OJR has maintained relatively high profitability by pursuing steady internal growth via rent revisions. It also implemented a timely equity issue in October 2007, when the J-REIT market started to show signs of fragility. OJR has also pursued asset expansion at a solid and modest pace by using the property pipeline of its sponsor group companies. OJR aims to achieve a portfolio size of ¥300 billion, though it has not yet announced a specific timeline for this goal.

OJR posted total revenue of about ¥10 billion and net income of about ¥4.1 billion for its 12th business term. OJR's debt-to-capital ratio (total debt/total debt + unitholders' capital, according to Standard & Poor's definition) stood at about 38.7% as of the end of February 2008. The company has engaged in three equity issues since its listing and aims to keep its debt-to-capital ratio between 40% and 50% (OJR's definition). As of February 2008, OJR's debt maturity was diversified through 2013, though the average residual term was somewhat short at about 2.7 years. Meanwhile, the company's cash flow stability was moderate, and its EBITDA interest coverage was about 7.7x. Its ratio of funds from operations (FFO) to total debt stood at about 11.7% as of the end of the company's 12th business term.

OJR had a cash balance of about ¥21.1 billion at the end of February 2008, which would provide sufficient cover for immediate operating expenses (including security deposit liabilities). OJR's commitment facilities total ¥27 billion, of which ¥23 billion were unused as of the end of the 12th business term. The company maintains sound relationships with multiple banks, securing liquidity to cover its debt repayments. As of the end of the 12th business term, secured borrowings accounted for about 10% of total debt, and

the ratio of net operating income (NOI) used as security for secured debt accounted for about 15% of the portfolio's overall NOI ratio. These ratios have improved.

The outlook on the long-term credit rating is positive. With the support of ORIX group companies, OJR should maintain above-average asset quality and stable earnings. An upgrade would require the company to adhere to a more clear investment policy while reinforcing its financial profile, which is considered weak relative to its business profile, as it maintains steady external growth. As its asset portfolio has reached a certain size, OJR's ability to implement more conservative leverage control in a manner that minimizes fluctuations, while improving its financial standing including its interest coverage and debt and equity structure, will be key factors in this regard. The company's ability to boost profitability by pursuing a more stable asset portfolio and business franchise will also be critical. The rating on OJR may come under downward pressure, however, if its leverage hovers at high levels, and financial measures relating to its interest coverage and debt and equity structure remain at low levels while the company pursues a clear investment policy.

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