

Ratings On ORIX JREIT Affirmed At 'A-/A-2'; Outlook Stable

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OVERVIEW

- Amid tough business conditions, ORIX JREIT Inc. (OJR) is committed to maintaining steady external growth and cash flow stability by leveraging its strengths as a diversified Japanese real estate investment trust (J-REIT).
- We are affirming our long-term and short-term corporate credit ratings on OJR and our rating on OJR's unsecured bonds (Series 1). The outlook on the long-term rating remains stable.
- We expect OJR to generate stable income, for the most part, while maintaining a relatively high-quality asset portfolio.

TOKYO (Standard & Poor's) July 9, 2010--Standard & Poor's Ratings Services today affirmed its 'A-' long-term and its 'A-2' short-term corporate credit ratings on OJR, as well as its 'A-' rating on OJR's unsecured bonds (Series 1), due Feb. 25, 2013. The outlook on the long-term rating remains stable. The rating reflects OJR's relatively strong business position and moderately conservative financial profile.

OJR is a diversified J-REIT that has built a relatively high-quality portfolio with a total purchase price of about ¥296.2 billion (as of June 30, 2010), backed by the strong brand recognition of its sponsor, ORIX Corp. (A-/Negative/--). As such, it commands high market recognition. OJR's average occupancy rate is 96.9% (as of May 31, 2010), indicating that the company's

properties continue, for the most part, to generate stable cash flows.

OJR's current strategy is to ensure that approximately 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. With the office leasing market environment remaining tough, OJR aims to maintain cash flow stability and profitability by leveraging its strengths as a diversified J-REIT. To this end, the company will, for the most part: (1) focus on investments in retail and distribution facilities that would likely fetch a reasonable return on investment and are leased under medium- to long-term contracts; and (2) continue to replace properties in its portfolio in an effort to mitigate risks, such as those associated with the geographical concentration of its office properties.

In the first four months of the 17th fiscal term (ending Aug. 31, 2010), OJR sold three properties (total sales price: ¥13.58 billion) and acquired six properties (total purchase price: ¥31.54 billion). These asset replacements have enabled OJR to enhance portfolio diversification and cash flow stability to a certain degree. Moreover, the company's steady expansion of its portfolio has put it within reach of its target portfolio size of ¥300 billion.

OJR has a moderately conservative financial profile and maintains relatively high financial flexibility, given that all its interest-bearing debt is unsecured. In February 2010, OJR issued J-REIT bonds, marking its first issuance since its establishment. It is committed to raising its ratio of long-term debt to total debt while diversifying its funding sources in an effort to build a solid debt profile.

As of Feb. 28, 2010, OJR's debt-to-capital ratio [interest-bearing debt/(interest-bearing debt + total net assets) according to Standard & Poor's definition] stood at about 49.5%, which represents the high end of the range set under the company's financial policy, and we regard this as a potential risk factor. Nevertheless, such risk is mitigated to a certain degree because the company has a track record for leverage control. Notwithstanding this, we intend to focus on the extent to which OJR is able to improve its financial profile because: (1) the company is experiencing a decline in rental revenues, and its profitability-related indicators and financial measures, which include interest coverage-related indicators, are weakening; and (2) the company has used some of its own funds to finance its acquisitions. Hence, its liquidity has declined.

The outlook is stable. Standard & Poor's expects OJR to generally generate stable income, while maintaining a relatively high-quality asset portfolio. An upgrade would require the company to strengthen its financial base as it maintains steady external growth. We see little likelihood of upward movement in our ratings on OJR in the foreseeable future as the company continues to face difficult business conditions. In addition, we may lower the ratings if the company's profitability-related indicators and financial measures, including interest coverage-related indicators, weaken further and its

leverage ratio continues to rise.

RELATED CRITERIA AND RESEARCH

"Rating Policy For Japanese Real Estate Investment Trusts," published May 9, 2001.

RATINGS AFFIRMED

ORIX JREIT Inc.	Rating
Long-term corporate credit rating	A-
Unsecured J-REIT bonds (Series 1)	A-
Short-term corporate credit rating	A-2

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