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Press Release

Structured Finance Ratings & Research

For immediate release

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S&P: Ratings On ORIX JREIT Inc. Affirmed At 'A-/A-2'; Outlook Stable

Tokyo, June 19, 2007 – Standard & Poor's Ratings Services today affirmed its 'A-' long-term and 'A-2' short-term corporate credit ratings on ORIX JREIT Inc. (OJR). The outlook on the long-term credit rating is stable.

The ratings reflect OJR's above-average business position, and its relatively conservative financial profile and financial policy. 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. Its portfolio also includes retail properties, a hotel, residential properties, and a distribution facility. Orix Corp. (A-/Stable/--) is a sponsor of OJR's asset-management company, ORIX Asset Management Corp. (OAM). The rating is partially constrained by concerns over the hotel, one of the top assets, and the company's relatively aggressive strategy of including a diverse range of asset types in its portfolio. However, OJR has steadily purchased high-quality assets backed by the strong real estate expertise and development capabilities of ORIX group companies. OJR maintains relatively solid liquidity, underpinned by its relatively conservative capital structure and above average profitability.

As at the end of its 10th business term (ended Feb. 28, 2007), OJR owned a portfolio consisting of 40 properties, valued at about ¥209 billion in terms of purchase price. The portfolio comprises 33 office buildings (about 86.7% of the purchase price), two retail properties (about 2.4%), three residential properties (about 1.9%), one hotel (about 7.1%), and one distribution facility (about 1.9%). Moreover, the company purchased the Nihonbashi Honcho 1-chome Building for ¥10.5 billion in March 2007, Round-Cross Shinjuku 5-chome for ¥4.5 billion in April 2007, and KN Jiyugaoka Plaza for ¥3.11 billion in May 2007.

Fujita Kanko Inc. operates the Yokohama Sakuragicho Washington Hotel, located in the Cross Gate building. Standard & Poor's will continue to monitor the performance of the hotel, given that Fujita Kanko is the largest tenant in the portfolio, accounting for about 8.2% of the portfolio's total rentable area, although this percentage is on a decreasing trend.

By property type, OJR is planning to allocate at least 80% of its investment portfolio, based on purchase price, to office properties, and may allocate up to 20% of its portfolio, based on purchase price, to investments in other types of property, including warehouses, distribution facilities, ownership of leased land, and health care facilities, in line with the company's "OJR WAY" investment policy. While investing in assets with a wide range of uses may require more complicated and sophisticated portfolio management, Standard & Poor's considers such concerns to be mitigated to some extent by the utilization of the ORIX group's real estate expertise, and by the portfolio's limited proportion of nonoffice assets.

Geographically, OJR's strategy is to allocate 80% or more of its portfolio in certain districts within the Tokyo metropolitan area, which is in line with the current composition of the property portfolio. As of the end of February 2007, the average occupancy rate of the property portfolio stood at 98.3%, and this has produced stable cash flows. Also, as OJR purchased properties with low property age from ORIX group companies, the weighted average property age of the portfolio is relatively low at about 10 years.

During its 10th business term, OJR acquired the rest of ORIX Akasaka 2-chome Building and now owns 100% of the property. As of the end of February 2007, this property comprised about 10.4% of OJR's portfolio and as a result is the largest property. Following this acquisition, the top four properties in OJR's portfolio comprised about 32.5%, which was slightly higher than the approximately 28.6% logged in the ninth business term (ended Aug. 31, 2006). However, the concentration of specific properties in the portfolio is expected to decrease gradually as OJR acquires new properties over the long term, and thus there is no particular concern regarding asset concentration.

OJR has been steadily pursuing internal growth via the renovation of properties in its portfolio, and the tight relationships of its property management companies. Internal growth measures, mainly rent revisions, have been helping to lift OJR's profitability. OJR has expanded the size of its portfolio by about 17% annually, which represents a modest pace. OJR aims to achieve an asset size of ¥300 billion, though it has not yet announced a specific time framework for this goal. Standard & Poor's believes that the company will continue to grow externally at a solid and modest pace, by acquiring assets from its sponsor group companies.

OJR's debt-to-capital ratio stood at about 42% (according to OJR's definition) as of the end of February 2007. OJR's management expects to maintain the debt-to-capital ratio (total debt/total debt + unitholders' capital) between 40% and 50%. To stabilize its leverage ratio, the company intends to raise equity in a timely fashion, in line with the purchase of properties, as evidenced by its two previous equity issues. OJR's EBITDA interest coverage in the year ended Feb. 28, 2007, was about 8.1x, and the ratio of funds from operations (FFO) to interest-bearing liabilities stood at modest level of about 10.7%. In March 2007, OJR finished refinancing debt of about ¥34 billion; because of this, secured debt decreased to about 9% of total debt. As a result, the net operating income (NOI) of some assets used as security for secured debt decreased to about 16% of the total portfolio NOI.

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. OJR has sound relationships with many financial institutions. As of June 6, 2007, it had ¥27 billion in unused commitment facilities to cover its debt repayments. In addition, it is increasing its unsecured borrowings. Therefore, OJR's financial flexibility has improved.

The outlook on the long-term credit rating is stable. OJR's diverse asset portfolio should generate stable income. With the support of its sponsor and sponsor-related companies, OJR is expected to maintain above-average asset quality as its portfolio grows. Standard & Poor's will continue to monitor whether OJR is able to implement more conservative leverage control in a manner that minimizes the range of fluctuations, as well as the asset acquisition conditions under the OJR WAY investment policy.

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

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