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Moody's downgrades NCI's ratings to Baa3; ratings remain on review for possible further downgrade

Tokyo, October 24, 2008 -- Moody's Investors Service downgraded the issuer and unsecured senior debt ratings of Nippon Commercial Investment Corporation (NCI) to Baa3 from Baa1. The rating remains under review for possible downgrade.

The downgrade, and the fact that the rating remains under review for possible further downgrade, reflects Moody's concern that growing uncertainty over the real estate financial market may put downward incremental pressure on NCI's financial flexibility.

Moody's had placed the issuer and unsecured senior debt ratings under review for possible downgrade on October 1, 2008. Moody's has taken into account in the ratings NCI's other debts to which the rated bonds are subordinated.

Pacific Holdings, Inc. – NCI's sponsor as well as the only shareholder of NCI's asset management company, Pacific Commercial Corporation – announced on September 30, 2008 that it had not reached a final agreement with Daiwa Securities Group Inc. regarding capital participation by the targeted date (the end of September).

Generally, a REIT is operated independently from its sponsor, and thus its credit quality is not directly affected by the sponsor's performance. However, given the growing uncertainty over conditions in the real estate financial market – exemplified by the bankruptcy of New City Residence Investment Corporation – the ability to finance REITs through debt and ensure necessary liquidity, in particular, are likely to be negatively affected depending on sponsors' financial performance. Moody's is therefore concerned that, following the sponsor's announcement, NCI's financial flexibility will be further stressed.

Debt maturing in September and October totaled over JPY 30 billion, refinanced mainly by NCI's main banks for a maximum of another two years. (Some of the refinancing loans have not yet been extended but have already been approved.) NCI also announced on October 1, 2008, that it would provide collateral to secure all of its loans, which may ease its relationships with financial institutions.

However, as the real estate financial market worsens, NCI is likely to require substantially more time before it can stabilize its fund-raising. Thus, the ratings remain under review for possible downgrade. Moody's ongoing review will focus on the company's efforts to ensure its access to funds.

NCI's portfolio consists of competitive urban commercial properties such as office buildings and retail properties located mainly in Tokyo and neighboring areas. Its portfolio expanded in value to JPY 256 billion. The company's fundamentals are good, given the supply/demand balance, as evidenced by the 97.9% occupancy rate as of end-August 2008.

Nippon Commercial Investment Corporation is a Japanese real estate investment trust investing in and managing office buildings and retail properties. Its operating revenues totaled approximately JPY 9.8 billion for the fiscal half-year ended August 2008.

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