Rating Action: Kenedix Realty Investment Corporation

Moody's downgrades KRI's rating; outlook negative

Tokyo, April 21, 2009 -- Moody's Investors Service has downgraded to Ba1 from Baa2 the issuer and senior unsecured long-term debt ratings of the Kenedix Realty Investment Corporation ("KRI"). The ratings had been under review for possible downgrade. The ratings outlook is negative. This concludes the review initiated on January 15, 2009.

The downgrade reflects Moody's concern that KRI's financial flexibility will be stressed due to the credit crunch plaguing the real estate market. The ratings also take into account that KRI's rated bonds are subordinated to its loans.

The negative ratings outlook reflects Moody's view that KRI will need some time to recover its financial flexibility.

Given an environment in which financial institutions are growing increasingly reluctant to extend loans to J-REITs, Moody's believes that these institutions will determine whether to extend loans to KRI based not just on its financial results and statements, but also on the performance of the company's main sponsor -- a non-zaibatsu real estate company. Thus, Moody's is concerned that the company's financial flexibility could be stressed by tighter funding conditions.

KRI has taken measures to improve its fund-raising ability, having taken out a new long-term loan from Development Bank of Japan Inc. in February 2009, as well as its decision (announced in March 2009) that it would start discussions with its banks on providing collateral. KRI's relationships with its main banks have not changed; they are maintaining their support, such as covering refinancing shortfalls when other banks do not roll over loans.

In addition, KRI's financial management is relatively conservative, as evidenced by a ratio of debt to total assets (including "released deposits" -- tenant deposits that can be used for temporary liquidity) of roughly 44%. The company plans to implement additional measures, including disposing of property, to reduce leverage and bolster liquidity.

Meanwhile, KRI is facing shorter borrowing terms, a declining ratio of long-term debt to total debt, and a rising spread in refinancing, which may stress KRI's financial flexibility in the future. Additionally, KRI's liquidity is limited, given in part the lack of a commitment line. And with continuous declines in real estate prices and in the liquidity of real estate assets, uncertainty over reducing leverage by disposing of property is also of concern to Moody's.

KRI's mid-level office portfolio in the Tokyo area is well diversified, consisting of 69 properties and worth JPY 225 billion (based on acquisition prices, and including the price of a property it has already contracted to purchase). The portfolio provides steady cash flow -- attesting to the expertise of its asset management company. Therefore, Moody's believes that any impact on KRI's near-term cash flows during this economic downturn will be limited.

Moody's previous rating action on KRI took place on March 6, 2009, when the agency downgraded its issuer and senior unsecured long-term debt ratings to Baa2 from Baa1, and continued its review for a further possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moodys.com.

Kenedix Realty Investment Corporation is a Japanese real estate investment trust investing in and managing mainly mid-level office properties. Its operating revenues totaled approximately JPY 8.5 billion for the fiscal half-year ended October 2008.

Tokyo
Takuji Masuko
VP - Senior Credit Officer
Structured Finance Group
Moody's Japan K.K.
JOURNALISTS: (03) 5408-4110
SUBSCRIBERS: (03) 5408-4100

Tokyo
Tetsuji Takenouchi
Senior Vice President - Team Leader
Structured Finance Group
Moody's Japan K.K.
JOURNALISTS: (03) 5408-4110
SUBSCRIBERS: (03) 5408-4100

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