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Moody's downgrades NRI'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 Residential Investment Corporation (NRI) to Baa3 from A2. 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 the growing uncertainty over the real estate financial market may put downward incremental pressure on NRI's financial flexibility.

Moody's had placed the issuer and unsecured senior debt ratings under review for possible downgrade on October 1, 2008.

Pacific Holdings, Inc. – NRI's sponsor as well as the major shareholder of NRI's asset management company, Pacific Residential 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, NRI's financial flexibility will be further stressed.

NRI needs to raise approximately JPY 30 billion to address maturing debt and property acquisitions in November and December. NRI maintains good relationships with its main banks and has commitment lines totaling JPY 13 billion.

However, as the real estate financial market worsens, NRI 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.

NRI's portfolio, with its focus on residential properties, expanded in value to roughly JPY 306.5 billion, with 140 properties comprising 9,400 rentable units. Most of the properties are new. The portfolio is extensive and well diversified throughout Tokyo and neighboring areas. Occupancy is high, at 94.4% as of end-September, and the fundamentals of the company's rental business are robust.

Nippon Residential Investment Corporation is a Japanese real estate investment trust investing in and managing residential properties. Its operating revenues totaled approximately JPY 9.3 billion for the fiscal half-year ended May 2008.

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