

Jan 12, 2018

R&I Affirms A+, Changes Outlook to Positive: ORIX JREIT Inc.

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: ORIX JREIT Inc.
Issuer Rating: A+, Affirmed
Rating Outlook: Positive, Changed from Stable

RATIONALE:

ORIX JREIT Inc. (OJR) is a real estate investment trust (J-REIT) that was listed in June 2002. As a diversified REIT, it invests in a wide variety of properties centered on offices. Other properties include retail facilities, logistics facilities and residential properties. ORIX Corp. serves as the sponsor of OJR.

R&I has changed the Rating Outlook because it positively views OJR's lower leverage level and continuous improvement in the quality and diversity of its portfolio.

OJR has reduced the LTV ratio gradually over the past few years by making public offerings for 9 consecutive fiscal periods. As of August 2017, the LTV ratio based on total assets fell to 43.6%. The ratio was even lower if unrealized gains reaching around 18% of the book value were taken into account. Moreover, about 59 billion yen in cash and deposits and an expected annual free cash flow of approximately 5 billion yen will likely help control the leverage level.

The asset size has expanded to more than 630 billion yen as a result of continuous property acquisitions utilizing the sponsor pipeline. It is the fifth largest in the J-REIT industry. The largest property accounts for only about 4% of the portfolio, and the tenant mix is also well diversified.

While making aggressive new investments, OJR closely examines the quality and profitability of each property. With such a stance, the REIT has acquired conveniently located properties in major city centers, including flagship ARK Hills South Tower and Sunroute Plaza Tokyo. Under the environment where yields on real estate investments are falling significantly, its NOI yield is maintained at above 5%.

Although OJR invests in various areas and properties, properties in the Greater Tokyo Area represent about 74% and offices about 57% of the portfolio (as of August 2017). The occupancy rate of the portfolio is high at over 98%, and upward rent renewals, especially with tenants of offices and urban-type retail facilities, are increasing. Earnings from other types of properties are also stable at relatively high levels.

The funding environment remains favorable. As of August 2017, the average remaining term to maturity is as long as 4.2 years, and most of its debts are fixed interest rate loans with due dates staggered. An available committed line of credit increased to 40.5 billion yen, which is high enough to cover annual repayments.

The Rating Outlook is Positive. OJR has established a quality, well-diversified portfolio centered on the Greater Tokyo Area and offices. The funding base is strong with due dates for debts staggered over a long period of time. R&I will likely consider a rating upgrade if the LTV ratio stays at the current or lower level and no major deterioration occurs in the external environment.

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". The methodology is available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

■Contact : Sales and Marketing Division, Customer Service Dept. TEL.+81-(0)3-6273-7471 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-6273-7273

Rating and Investment Information, Inc. TERRACE SQUARE, 3-22 Kanda Nishikicho, Chiyoda-ku, Tokyo 101-0054, Japan <https://www.r-i.co.jp>

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R&I RATINGS:

ISSUER: ORIX JREIT Inc. (Sec. Code: 8954)
Issuer Rating
RATING: A+, Affirmed
RATING OUTLOOK: Positive, Changed from Stable

Unsec. Str. Bonds No.5	Issue Date	Maturity Date	Issue Amount (mn)
	Feb 08, 2013	Feb 08, 2018	JPY 5,000

RATING: A+, Affirmed

Unsec. Str. Bonds No.6	Issue Date	Maturity Date	Issue Amount (mn)
	Jan 20, 2014	Jul 20, 2018	JPY 5,000

RATING: A+, Affirmed

Unsec. Str. Bonds No.7	Issue Date	Maturity Date	Issue Amount (mn)
	Jan 20, 2014	Jan 19, 2024	JPY 2,500

RATING: A+, Affirmed