



NEWS RELEASE

No.2009-C-887
Oct 5, 2009

R&I Changes Outlook Negative: MID REIT, Inc.

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

ISSUER: MID REIT, Inc. (Sec. Code: 3227)
Issuer Rating

R&I RATING: A (Affirmed)

RATING OUTLOOK: Negative (Changed from Stable)

RATIONALE:

MID REIT, Inc. is a real estate investment trust (J-REIT) listed on the stock exchange in August 2006. The fund focuses on investments in office buildings in the Osaka area. Its sponsor is MID Urban Development Co., Ltd.

The change to the Rating Outlook this time is mainly attributable to a decline in rent revenues and rising financing costs that put pressure on the fund's performance.

The market of office buildings in Osaka, main investment targets, is harsh, and this has put downward pressure on cash flows of properties held by MID REIT. The office building market in the Osaka area is seen more depressed than that in the Tokyo area, and because of massive supply of office space scheduled in the future, there are growing uncertainties about rent revenue prospects. Furthermore, contents of the fund's portfolio are weighed toward specific category of buildings, areas as well as tenants. As such, impacts from the market downturn may become considerable.

In August 2009, the maturity date of the borrowing (20 billion yen) arrived. MID REIT has refinanced the same amount from correspondent financial institutions. Of 20 billion yen, a long-term borrowing with nearly a three-year period is 14.5 billion yen. The fund seems to be keeping good relationships with financial institutions, so R&I sees little concern about refinancing. Financing costs are rising, however, and this is adversely affecting its financial performance. The maturity date of borrowings amounting to 40 billion yen or a half of the fund's total borrowings will arrive in April and August 2010. Financing costs could increase even further, depending on the economic environment in that time.

Nevertheless, flagship building The Twin 21 and other properties held by MID REIT are considered competitive, and there is little possibility that occupancy rates will remain low for a longer period, at least regarding major properties. Furthermore, rent revenues from commercial facilities, which account for 18% of the portfolio on an acquisition value basis, are stable. Since the fund is able to rely on supports from the MID group, which has been involved in real-estate businesses mainly in the Osaka area over a long time, risks are reduced to a certain extent.

The loan-to-value (LTV) ratio is low at 40.5%. However, the appraisal value as of the end of June 2009 was 10% lower than the book value, suggesting that the LTV ratio is not low in a precise sense if appraisal losses are factored in. Moreover, the current level of the investment unit price makes it difficult for the fund to increase capital for the time being. For the reasons above, conservative leverage management is preferable than before.

While rent revenues are expected to remain sluggish in the short run, R&I does not believe the overall occupancy rate will stay weak for the long period, as mentioned earlier. In consideration of the positive factors in its financials (such as the low LTV ratio on an acquisition value basis and relatively good relationships with domestic financial institutions), R&I has affirmed the rating. R&I will continue keeping an eye on MID REIT's financial performance, including trends in rent revenues and financing costs.

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The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/rating/st/methodology.html>

<http://www.r-i.co.jp/eng/rating/rating/methodology.html>

R&I RATINGS:

ISSUER: MID REIT, Inc (Sec. Code: 3227)

ISSUER RATING: A (Affirmed)

RATING OUTLOOK: Negative (Changed from Stable)

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than the Issuer Rating.

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