



# NEWS RELEASE

Sep 29, 2010

## R&I Changes Outlook Stable: 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: Stable (Changed from Negative)**

#### **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, MID Urban Development Co., Ltd., became a consolidated subsidiary of The Kansai Electric Power Co., Inc. in December 2009.

The change of the Rating Outlook this time reflects the strengthened funding base as a result of a release of security interest and lengthen-out and diversification of loan terms, among others. Although prospects for rent earnings remain somewhat uncertain, stable occupancy rates suggest fewer tenant turnovers. R&I has incorporated this factor into consideration.

The market for office buildings located in Osaka, MID REIT's main investment target, is harsh. Downward pressure continues to be in place on cash flows of properties held by MID REIT. Given that 1) the office building market in Osaka looks harsher than that in Tokyo, and 2) a number of office spaces are scheduled to be supplied in the future, there are growing uncertainties with respect to prospects for rent revenues.

Amid such market conditions, MID REIT has revised a rent contract with the main tenant of its flagship building The Twin 21. Since the new contract exempted rent and common-area charges for unused floors, rent revenues declined. The size of decline as a result the contract revisions amounts to approximately 330 million yen per term, which is equivalent to a little over 5% of operating revenue for the term ended December 2009. Nevertheless, if the tenant decides to rent unused floors again, the size of decline may narrow.

The occupancy rate of properties recovered, reaching 97.3% as of the end of August 2010. Its properties including the flagship building The Twin 21 are very competitive. It seems that the REIT will be sufficiently able to maintain stable occupancy rates going forward. Furthermore, rent revenues from commercial facilities, which account for 18% of the total assets on an acquisition value basis, are stable. Risks are reduced to some extent, considering possible support from the Kansai Electric Group, in addition to the MID Group which has been engaged in real estate businesses mainly in the Osaka area for years.

Nevertheless, excessive concentration to the Osaka Business Park area as well as to some tenants remains a risk factor. It is critical to ease concentration risk by resuming external growth.

As regards funding, major improvement is observed. Attention had been paid to updates on refinancing of the borrowings due 2010 totaling 40 billion yen. In March, MID REIT reached agreement with creditor banks ahead of due dates. As a result, the REIT's funding base is strengthened through a release of security interest, lengthen-out of loan terms and diversification of due dates. The reduced financing costs are also a positive factor for earnings. Refinancing at favorable terms seems largely attributable to the improvement of the creditworthiness achieved through the change of the sponsor.

The proportion of debt to total assets remains low at 40.8%. However, the appraisal value of assets is about 15% below the carrying value as of end-June 2010. If valuation losses are taken into account, the debt ratio is not necessary low. Since capital increases seem difficult because of the current level of the unit price, the leverage should be managed at conservative levels.

---

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

©Rating and Investment Information, Inc.



---

# NEWS RELEASE

---

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/sf/about/methodology/index.html>

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

**R&I RATINGS:**

**ISSUER:**

**ISSUER RATING:**

**RATING OUTLOOK:**

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

**A (Affirmed)**

**Stable (Changed from Negative)**

---

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Investors Service Division TEL.03-3276-3511 FAX.03-3276-3413 <http://www.r-i.co.jp>

Credit ratings are R&I's opinions on an issuer's general capacity to fulfill its financial obligations and the certainty of the fulfillment of its individual obligations as promised (creditworthiness) and are not statements of fact. Further, R&I does not state its opinions about any risks other than credit risk, give advice regarding investment decisions or financial matters, or endorse the merits of any investment. R&I does not undertake any independent verification of the accuracy or other aspects of the related information when issuing a credit rating and makes no related representations or warranties. R&I is not liable in any way for any damage arising in relation to credit ratings (including amendment or withdrawal thereof). As a general rule, R&I issues a credit rating for a fee paid by the issuer. For details, please refer to <http://www.r-i.co.jp/eng/policy/policy.html>.

©Rating and Investment Information, Inc.