

Dec 17, 2012

## R&I Downgrades to A-, Stable: MID REIT, Inc.

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

**ISSUER:** MID REIT, Inc.  
**Issuer Rating:** A-, Previously A  
**Rating Outlook:** Stable

### RATIONALE:

MID REIT, Inc. is a real estate investment trust (J-REIT) listed on the stock exchange in August 2006. The REIT 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.

R&I changed the Rating Outlook to Negative in October 2012, due mainly to a deterioration of profitability and appraisal value-based leverage. Following the cancellation of a lease contract by a tenant announced later by the REIT, R&I has judged that a further decline in profitability will be inevitable. Accordingly, R&I has downgraded the rating to A-.

The market for office buildings in Osaka, MID REIT's main investment target, is harsh. Downward pressure remains on cash flows from properties held by MID REIT, and the NOI yield has declined to 4.7% at present. With a number of office spaces scheduled to be supplied in Osaka in 2013, prospects for rent revenues are still unclear.

Under such circumstances, a tenant who has rented the entirety of Panasonic Osaka Kyobashi Bldg. will exit in May 2013. Given the severe market, it may take time for the occupancy rate to recover, and the possibility of unit rents falling sharply is high even if the rate improves. Thus, the overall NOI yield will likely trend low at the lower end of the 4% level.

Meanwhile, a major tenant of The Twin 21 has agreed to continue renting, and the lease contract with the tenant was extended to 2017. R&I positively views the fact that the property will be leased in its entirety to the tenant, though the unit price of rent will be revised, and the amount of certain rent will be reduced through April 2013.

The LTV ratio remains low at 40.8%. However, since the appraisal value of assets is about 20% below the carrying value as of end-June 2012, the debt ratio based on an appraisal value is rising. If valuation losses are taken into account, the REIT has a limited capacity for a large increase in loans. Furthermore, the level of investment unit price suggests that it is difficult to achieve a capital increase for the time being. Accordingly, there is a marginal possibility that MID REIT will soon boost earnings through purchase of new properties and portfolio diversification.

MID REIT has been able to raise funds smoothly on the back of favorable relationships with correspondent financial institutions. With respect to 14.5 billion yen in loans whose maturity date fell in July, the REIT has successfully refinanced loans in relatively favorable conditions with loan terms being three, five or seven years. Since loan terms are extended and due dates are staggered to a certain extent, financing costs have been reduced, improving P/L performance. At present, its debts are all unsecured.

The Rating Outlook is Stable. Although the exit of the tenant from Panasonic Osaka Kyobashi Bldg. is a blow to MID REIT, the risk of the major tenant moving out of The Twin 21 has receded. However, its undiversified portfolio remains a risk factor. Certain attention should be paid to whether deterioration of profitability has an impact on the favorable financing environment.

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

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# NEWS RELEASE

the rating.

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

## R&I RATINGS:

**ISSUER:**

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

**Issuer Rating**

**RATING:**

**A-, Previously A**

**RATING OUTLOOK:**

**Stable**

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