

Rating Action: Mori Hills Reit Investment Corporation

Moody's downgrades MHR's rating; outlook negative

Tokyo, April 21, 2009 – Moody's Investors Service has downgraded to Baa1 from A3 the issuer and senior unsecured long-term debt ratings of the Mori Hills REIT Investment Corporation ("MHR"). The ratings had been under review for possible downgrade. The ratings outlook is negative. This concludes the review initiated on January 15, 2009.

The downgrade reflects Moody's concerns that MHR's conservative financial policy may be stressed, since its ratio of debt to total assets (including "released deposits" – tenant deposits that can be used for temporary liquidity) is roughly 56% and remains high relative to its historical level.

The negative ratings outlook reflects Moody's view that MHR will need some time to reduce its leverage.

The company plans to hold the ratio in the 45%-55% range. Moody's is concerned that MHR's already conservative financial policy may be stressed, given the high debt ratio relative to its historical leverage. Although MHR plans to hold back from any property acquisitions using debt and to use its cash on hand to reduce leverage, Moody's believes that reducing debt significantly will take some time.

Long term debt may be as high as 86% of total debt, but funding terms are relatively short for the J-REIT sector. The lack of a commitment line will be an issue in the future. However, MHR has maintained its relationships with its main banks (mostly the megabanks). In addition, the company has made efforts to improve its ability to raise funds and to establish its relationships with more financial institutions, and to that end has taken out a new loan from Development Bank of Japan Inc. in March 2009.

MHR's portfolio comprises only properties developed by Mori Building Co., Ltd., MHR's sponsor. Properties in Minato-ku, Tokyo, represent approximately 86% of the portfolio's value, and are characterized by high scarcity value and tenant attractiveness.

MHR's portfolio's cash flow may be more vulnerable to economic cycles because of the high unit rents for its office buildings and residential properties. However, Moody's believes that any impact on MHR's near-term cash flows will be limited, as many of its office rents are still lower than market rate. In the meantime, the occupancy rate of and unit rents for luxury rental apartments may be stressed. However, this concern is mitigated by the fact that (1) all of the luxury rental apartments are located in Minato-ku, Tokyo, which is very attractive to tenants; (2) the properties are managed by an affiliate of its sponsor – an expert in the management of such properties; and (3) the revenues from such properties comprise only 20% or so of total revenues.

Moody's previous rating action on MHR took place on January 15, 2009, when the agency initiated a review of its issuer and senior unsecured long-term debt ratings of A3 for a possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report, "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moodys.com.

Mori Hills REIT Investment Corporation is a J-REIT focusing mainly on investing in high-quality office buildings and residential and retail properties located in central Tokyo. Its operating revenue for the fiscal half-year that ended in January 2009 was approximately JPY 5.7 billion.

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