



Moody's assigns A3 to Nippon Commercial Investment Corporation

Tokyo, December 14, 2006 -- Moody's Investors Service has assigned an issuer rating of A3 to Nippon Commercial Investment Corporation (NCI). The rating outlook is stable.

The rating reflects NCI's [1] stable cash flow based on its diversified property portfolio, [2] strong capability in property acquisition and management, utilizing the network of its asset management company's sponsor, and [3] reasonably conservative financial policy.

NCI's portfolio ranks as the second largest among 40 listed JREITs' (on an acquisition price basis) in terms of size at time of listing. As of end-November 2006, the portfolio consisted of 37 properties worth JPY199.8 billion, including offices (65%) and retail properties (35%) that were mainly located in major cities. NCI's investment policy calls for a focus on urban commercial real estate properties, such as offices and retail establishments, and keeping the office-to-retail proportion of its portfolio at 7:3. The investment policy is especially selective concerning offices: geographically, NCI seeks properties located in Tokyo, Osaka, and Nagoya, and categorizes submarkets depending on office demands and tenant characteristics.

NCI's portfolio is well diversified, with the top three properties representing 33% of the pool balance and having a Herfindahl Index, a measure of portfolio value diversity, of 16.3.

NCI intends to expand its portfolio to the range of JPY300-500 billion but, in consideration of the current market climate, with no time limit. Moody's expects that the portfolio expansion will be supported by the company's sponsor's network, in addition to its acquisition of development projects led by Pacific Management Corporation (PMC), the sponsor of NCI's asset management company, Pacific Commercial Investment Corporation (PCI).

In its efforts to utilize the asset management expertise of PMC, NCI has taken in from its parent employees with experience and expertise in real estate asset management. In addition, it has established a cooperation framework with its parent company group through collaborating with other group companies, including a property management company specialized in retail properties and a portfolio-management system company skilled in the development, security and maintenance of various types of real estate properties. At the same time, NCI has separated itself from the risk of conflict of interest with the sponsor group by setting up an in-house compliance committee that requires unanimous consent from members that include a third-party.

On the financial side, NCI intends to control its loan-to-value ratio (LTV) – defined as (total liabilities – security deposit and guarantees reserved) / (total assets – security deposit and guarantees reserved ± [the difference between appraisal values and acquisition values]) generally in the 40s%, and basically not higher than 50%. Although NCI lacks experience in controlling LTV, Moody's has confirmed that the company intends to sustain this reasonably conservative financial policy through its growth phase, and has reflected this policy in the rating.

NCI's financial relationship partners mainly consist of domestic megabanks. Its borrowings are all unsecured with no guarantees. Currently, the longest term of its outstanding debts is three years. NCI plans to extend the terms of borrowings, and to achieve further diversify its debt maturities and financial channels, including bond issuance. To enhance financial stability, Moody's considers it critical for NCI to introduce measures to address liquidity risk, such as committed line facilities.

Nippon Commercial Investment Corporation, listed in September 2006, is a Japanese real estate investment trust mainly focusing on investment in office buildings and retail properties. NCI's asset management company, Pacific Commercial Investment Corporation, is wholly owned by Pacific Management Corporation.

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