



# NEWS RELEASE

No.2006-C-915  
Dec 12, 2006

## R&I Assigns A: Nippon Commercial Investment Corp.

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

**ISSUER:** Nippon Commercial Investment Corp. (Sec. Code: 3229)  
Issuer Rating

**R&I RATING: A (Newly Assigned)**  
RATING OUTLOOK: Stable

### **RATIONALE:**

Listed on the stock exchange in September 2006, Nippon Commercial Investment Corp (NCI) is a real estate investment trust (J-REIT) with assets comprising 37 properties with a value of 199.8 billion yen (on an acquisition price basis). NCI invests in urban commercial real estate (office buildings and commercial facilities). The company's sponsor is Pacific Management Corporation (PMC).

Office buildings account for 65% of NCI's portfolio and commercial facilities 35% with 44% of the portfolio located in Tokyo's six central wards and 25% located in Osaka City. The average acquisition price per property is 5.4 billion yen and the weighted average age at acquisition value is approximately 13 years (16 years for office buildings and 9 years for commercial facilities).

NCI's strategy is to direct about 50 – 80% of investment into office buildings located in the three major cities (Tokyo, Osaka and Nagoya metropolitan areas) and 20 – 50% into commercial facilities located in city center areas and commercial facilities in suburban areas. The present portfolio is based around major properties with a relatively high level of competitiveness such as the Hitachi High Tech Building and Shinsaibashi OPA, and the portfolio composition is in line with the strategy outlined above.

Despite some measure of concentration with major property Shinsaibashi OPA (including the main building and "Kirei kan") accounting for 18% and the Hitachi High Tech Building accounting for 9% as a proportion of the portfolio, there are few concerns given the competitiveness of the properties. The concentration will alleviate in the future with additional acquisition of properties. In terms of the composition of tenants, despite a scattering of single tenant properties, a concentration in excess of 10% on the rental fees basis is not seen.

NCI has concluded a support line agreement with its sponsor PMC that includes the grant of priority negotiation on the sale of real estate that PMC owns and develops itself. It also concludes agreement on the priority supply of third party sales information. These create a mechanism for allowing the sponsor's information network built up through its ample experience of managing real estate funds to be utilized in investment activities. In fact, just under half of the properties that NCI currently owns were acquired from its sponsor or companies affiliated with it.

The features of NCI's property management include the selection of an outside subcontractor by tender as a rule, the adoption of the NCI portfolio management system, and the support of Pacific Retail Management Corporation in the operation of commercial facilities. These policies have already been adopted in the 37 properties, and it is considered that they will play a role in the efficient management of properties, especially when the number increases in the future.

NCI has acquired properties amidst fierce competition to obtain prime properties, and, because more than half of its properties have been acquired from sources other than its sponsor, the profitability of its current portfolio is relatively low. It will be important to raise profitability in the future, drawing on the specialist capabilities of the asset management company and its scale.

**Rating and Investment Information, Inc.** Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan  
Structured Finance Rating Division TEL. 03-3276-3406-3428 FAX. 03-3276-3429 EMAIL [sfdept@r-i.co.jp](mailto:sfdept@r-i.co.jp) Homepage <http://www.r-i.co.jp>

Ratings are statements of R&I's opinion shown in certain symbols regarding an Issuer's general capacity (credit quality) to repay its financial obligation and individual debts (bonds and loans, etc.) and it is not a statement of recommendations to buy, hold, or sell any securities. Information has been obtained by R&I from sources believed to be reliable, however, its accuracy, adequacy, or completeness is not guaranteed. Therefore, R&I is not responsible for any errors or omissions or the result obtained from the use of the rating. As a general rule, R&I provides the rating services for a rating fee paid by the Issuer.

©Rating and Investment Information, Inc.



# NEWS RELEASE

NCI uses Debt ratio (see Note), which is calculated by including deposits and guarantees, as an indicator used in leverage control. The company's policy is to operate with this ratio basically at 45% as a general rule, with 50% as the ceiling. While there is a possibility that the Debt ratio could rise in the future due to additional acquisition of properties, the ratio should remain within the range described previously due to investment activities that are conscious of leverage levels and the implementation of capital increases and so on.

Based on the company's business plans and other data, R&I has made projections on the medium-term transition of its own loan-to-value ratio (debt plus deposits and guarantees excluding reserves divided by R&I's appraisal of the total value of the trust's properties). According to this projection, LTV as defined by R&I can be expected to be maintained at as favorable level of 40%, and at the low-50% level at the highest.

NCI's borrowing has been consisted of unsecured, non-guaranteed loans since the time when company first listed its shares. Currently it borrows from 12 financial institutions, including mega-banks, city banks, trust banks, regional banks, non-life insurers and cooperative financial institutions and it also makes use of a maximum loan limit of 15 billion yen. The terms of borrowings are relatively short at one to three years, and they are all variable rate (interest caps have been provided for all long-term loans). The development of longer term fixed rate fund raising, a diversification of repayment dates and a various fund raising measures including the issuance of investment trust bonds will be issues on the financial front in the future.

Note: Debt ratio = (total liabilities – security deposits and guarantees reserved) + (total assets + (or –) [difference between appraised value and acquisition value] – security deposits and guarantees reserved) x 100

## R&I RATINGS:

ISSUER: Nippon Commercial Investment Corp. (Sec. Code: 3229)  
ISSUER RATING: A (Newly Assigned)  
RATING OUTLOOK: Stable

Issuer Rating is R&I's opinion regarding an issuer's overall capacity to repay its entire financial obligation, and it will be assigned to all issuers. The rating of individual obligations (i.e. bonds and loans etc.) 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.