



Moody's assigns A2 issuer rating to TOP REIT; outlook stable

Tokyo, October 3, 2006 -- Moody's Investors Service has assigned an issuer rating of A2 to TOP REIT, Inc. (TOPR). The rating outlook is stable.

The rating reflects TOPR's [1] solid investment policy, which involves the search for high-quality properties, but does not commit the company to any pre-determined specifics on a published basis, such as timetables and portfolio sizes, [2] strong capabilities in the acquisition and management of properties, including its ability to use the network of its asset management company's sponsor group, and [3] conservative and flexible financial policy.

TOPR intends for its portfolio to become a comprehensive mix of office, retail and residential properties. Geographically, its investment policy focuses mainly on Japan's three major metropolitan areas, especially around Tokyo, and all other principal cities.

The current portfolio contains eight properties: six office and two retail, but so far no residential complexes. The office buildings comprise 82% of the portfolio and retail 18%, based on its total acquisition price of JPY 113.3 billion. Approximately 99% of the portfolio is located in central Tokyo or its outskirts.

The most notable attribute of TOPR's portfolio strategy is its solid investment policy, which is focused on acquiring high-quality and competitive properties. Another attribute is - as mentioned - no publicly announced pre-determined specifics, such as timetables and portfolio sizes. Such a situation reflects the company's core management policy. Its criteria for property quality differ in accordance with asset type, but common themes are an emphasis on good locations and large floor areas in their sub-markets, given its understanding that such attributes are necessary for leasing competitiveness, and therefore for stable cash flow generation.

On the other hand, TOPR's current portfolio is concentrated in terms of property values and tenants. Its purchase price per property is high at approximately JPY 14 billion, and several assets are single tenanted.

Moody's has confirmed, however, that the company believes that portfolio expansion can wait because concentration risk is mitigated over the short and medium term thanks to several advantages: the top portfolio properties show sufficient competitiveness in their sub-markets and current lease agreements secure long-term fixed rents. In addition, over the long term, the concentration risk will further improve as TOPR acquires high-quality properties by actively leveraging its sponsor's abilities.

Furthermore, TOPR has assigned knowledgeable asset managers from its sponsors to its asset management company, Top REIT Asset Management Co., Ltd. (TOPRAM), in its efforts to utilize asset management expertise.

On the financial side, TOPR plans to keep its loan-to-value ratio (LTV) mainly in the 40-50% range. The ratio may exceed 50%, but in that case, it will assume no further interest-bearing borrowings for acquisitions. Moody's has confirmed that the company intends to maintain this reasonably conservative financial policy through its growth phase, and this policy is reflected in the rating.

TOPR has conducted a solid level of liability management. Since the company was listed, almost all its borrowings have been unsecured, with no guarantees, and mainly long-term. Most its current borrowings bear fixed interest rates. It intends to further diversify its debt maturities and financial channels, including through the implementation of bond issuances and extensions of the terms of its current borrowings.

In addition, the company has good relationships with six financial institutions, centering on one of the sponsors of its asset management company, Sumitomo Trust and Banking Co., Ltd. (Sumitomo Trust), and on a major city bank. In estimating TOPR's financial safety, Moody's also considers the fact that the company has the strong commitment of Sumitomo Trust.

TOP REIT, Inc., listed in March 2006, is a Japanese real estate investment trust focusing on investment in and management of office buildings and retail and residential properties. Its asset management company, TOPRAM, is 38% owned by Sumitomo Trust, 31% by Nippon Steel City Produce, Inc. (a wholly owned subsidiary of Nippon Steel Corporation) and 31% by Oji Real Estate Co., Ltd. (a wholly owned subsidiary of Oji Paper Co., Ltd.)

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