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## **Moody's downgrades NCR to A3 from A2; Outlook negative**

Tokyo, September 9, 2008 -- Moody's Investors Service has downgraded the issuer rating and senior unsecured long-term debt ratings of New City Residence Investment Corporation (NCR) to A3 from A2. The outlook is negative.

The rating action reflects Moody's view that NCR's financial flexibility may be constrained by (1) plans to purchase a large property and (2) maturing debts.

Short-term debt totaling JPY 12.5 billion, as well as long-term debt of JPY 17.4 billion, will come due in September 2008. Also, in October 2008, the company plans to acquire a property in Ikebukuro for JPY 27.7 billion. NCR has relied mainly on its banks for its financing needs.

Moody's is concerned that, given the ever growing credit crunch in the real estate market, NCR is likely to suffer more severe funding conditions than ever, which would limit its financial flexibility.

Meanwhile, NCR says it intends to maintain its LTV around 40-55%; it is currently in the lower 50% range, but is likely to go up again in October 2008 when the Ikebukuro property is acquired.

As the REIT equity market is slowing down in Japan, NCR needs to raise funds by disposing of real estate properties if it is going to maintain its LTV within its target range. However, as the residential sector of Japan's real estate trading market is entering a correction phase, property disposals are likely to be more challenging than ever.

NCR has tried to maintain a conservative financial policy by disposing properties in 2008. It also allocated new investment units to a third party in May 2008, the proceeds of which were to be used to service debt. Moody's believes that the company continues to pursue a conservative financial policy in its business management.

Because Japan's REIT equity and debt markets are softening, restoring flexibility to NCR's financial management, which has been impaired because of the company's short-term financing needs, will take some time – hence, Moody's negative outlook on the rating.

NCR has maintained good relationships with its main and other banks. Its portfolio, which focuses on residential properties, expanded in value to roughly JPY 220 billion, with 109 properties, as of end-July 2008. The portfolio is diversified, with most of the properties located mainly in the Tokyo

metropolitan area; most are also new. The portfolio's average occupancy rate was roughly 93% as of end-July 2008. Moody's considers that the fundamentals of NCR's residential rental business are strong and that the company can maintain stable cash flow.

New City Residence Investment Corporation is a Japanese real estate investment trust investing in and managing residential properties. Its operating revenues totaled approximately JPY 6.3 billion in the fiscal half-year ended February 2008.

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