11-D-0746
December 12, 2011

JCR Assigned AA-/Stable Rating to Senior debts of Daiwa House Residential Investment Corporation

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

Rationale

Daiwa House Residential Investment Corporation (hereinafter referred to as the "Company") is a J-REIT which was established on June 7, 2005 and then listed on the Tokyo Stock Exchange (Real Estate Investment Trust Section) on March 22, 2006. It changed the Corporate name from BLife Investment Corporation to Daiwa House Residential Investment Corporation on December 1, 2011. Although the Company invested primarily in residential facilities (rental housing) and commercial facilities, focusing on "life and housing," it changed its investment guidelines on September 5, 2011 and decided to invest in residential facilities only anew thereafter.

The main sponsor of the Company's asset management company was Morimoto Co., Ltd. ("Morimoto"), which engages in development and sales of condominiums as a main business, when it was listed on the Tokyo Stock Exchange. In November 2008, the operation structure was changed into the one with Daiwa House Industry Co., Ltd. ("Daiwa House Industry"), a large diversified house maker in Japan, being its main sponsor. Daiwa House Industry Co., Ltd. is now the single shareholder of the Company through additional acquisitions of shares of stock. Although the corporate name of the asset management company was Morimoto Asset Management Co., Ltd. at the time of its listing, that was changed to Daiwa House Asset Management Co., Ltd. ("DHAM") owing to the change to the sponsor structure described above.

The Company and DHAM have entered into an agreement for sponsor support, by which information on properties, warehousing function and human resources are provided from the sponsor. It is expected that the know-how, which has been cultivated in various housing related businesses by the Daiwa House Group, affluent information network and human resources, which are cultivating specialist knowledge, can support asset management operations at DHAM, contributing to the external growth and internal growth of the Company going forward.

The Company was listed with 14 properties and the total acquisition price of 32,018 million yen initially. With the asset size when listing being relatively small, it intended to grow externally counting also on cooperation with the sponsor, aiming at 100 billion yen for the asset size within three years after the listing. Although the asset size increased to 51,139 million yen in terms of the total acquisition price for the 24 properties at the end of the fourth period (ended November 2007) through replacement of assets, a subsequent decline in creditworthiness of Morimoto, its former main sponsor, and changes in the real estate market condition put a brake on the external growth. As a result, its external growth was stopped for about 2 years. Subsequently on April 1, 2010, however, the Company's absorption and merger with New City Residence Investment Corporation ("NCR"), which became the first J-REIT to file for Civil Rehabilitation Act, increased significantly its asset size. The properties that the Company succeeded from NCR were 105 residential facilities with acquisition price of 139,518 million yen, which was reduced in market price by 24% from NCR's book value.

After the merger, the current portfolio consists of 125 properties with total acquisition price of 207,902 million yen through replacement of properties including asset sales from a profitability perspective. The Company has been increasing the asset size to an amount which ranks high among the residential J-REITs. The properties and tenants have been more diversified by the expanded portfolio, increasing stability in the cash flow generation capacity.

The Company intends to invest also in cities designated by ordinance in consideration of geographical diversification while focusing on Tokyo metropolitan area where population will likely continue to increase, and has an investment policy focused on single-person households and DINKS households, which are expected to increase, for the residential facilities. JCR thinks that the Company can expect a stable occupancy rate and rent revenue over the medium to long term thanks to an appropriate management by tenant leasing policy by DHAM, implementation of repair and property replacement associated with capital expenditures while leveraging economies of scale of the existing portfolio. However, JCR thinks it necessary to continue to closely watch trends in macro economy, regional economy and personal consumption and also effects from real estate market conditions on demand for its each residential facility.

As for the management policy after the merger with NCR, DHAM has been performing management, dividing it into the 1st stage and the 2nd stage and setting forth the management policy for each of the stages. For the 1st stage, DHAM set forth specifically an increase in occupancy rate for the property portfolio, reduction in real estate management cost, reduction in LTV and an increase in the portfolio quality through replacement of assets, and DHAM set forth implementation of a public offering and an external growth through acquisitions of properties centered on development properties by the sponsor and warehousing properties for the 2nd stage. It has achieved the goals set forth for the 1st and the 2nd stages steadily thanks in part to the cooperation with the sponsor, Daiwa House Industry. Further external growth and internal growth can be expected continually hereafter by way of support from the sponsor in property and financial aspects for the acquisitions and management.

As for the financial structure, the Company stabilized the financial base, and JCR values that the financial flexibility and stability have increased than before. Specifically, the Company changed the secured loans such as rehabilitation debt with right of separate satisfaction the Company succeeded from NCR into the unsecured loans for the full amount. It has also raised new loans with better conditions than those of existing loans, reducing spread and making average remaining period of loans longer. Furthermore, it has reduced its LTV for the total assets from the percentage range above 60% to less than 70% to around 55% by the public offering implemented in October 2011. The Company plans to manage the LTV at around 50-55% hereafter. Therefore, it can maintain a stable financial level.

The primary reason for these improvements in the financial aspect above seems to be the recognitions by the affected parties for high creditworthiness of the sponsor, Daiwa House Industry. JCR thinks that the Company can continue to raise the financial stability further, leveraging the creditworthiness of its sponsor.

While JCR thinks that stability in cash flow is high from a perspective of the asset characteristics for the residential J-REITs, JCR values that stability in cash flow for the Company has increased further thanks to the progress in expansion in size and property diversification owing to the merger with NCR. As for the fundraising, the flexibility and stability have progressed steadily thanks to the implementation of the measures described above by DHAM after the merger. Furthermore, given that merger with NCR generated a negative goodwill of 19 billion yen, and the Company succeeded loss carried forward of about 48 billion yen from NCR, JCR thinks that the Company has a certain degree of freedom in dividend policy, property sale strategy and LTV control for the time being.

JCR determined the "AA-" rating for the Company, taking into account the above as a whole.

Rating

Issuer: Daiwa House Residential Investment Corporation (security code: 8984)

<Assignment>

Senior debts: AA-   Outlook: Stable

Outline of the method for the determination of Credit Ratings is posted as "Rating Methodology (Structured Finance)" on JCR's home page (http://www.jcr.co.jp). The rating methodology is subject to additions and changes. In such cases, however, these additions and changes are shown in chronological order. Please check the release date of this press release against that of the rating methodology (i.e., the date when such methodology became effective) and then refer to the rating methodology above.

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