

Rating Action: Hankyu REIT, Inc.

Moody's downgrades HRI's rating; outlook negative

Tokyo, April 21, 2009 -- Moody's Investors Service has downgraded to A3 from A2 the issuer rating of the Hankyu REIT, Inc. ("HRI"). The rating had been under review for possible downgrade. The rating outlook is negative. This concludes the review initiated on January 15, 2009.

The downgrade reflects Moody's concerns that HRI's conservative financial policy may be stressed, since its ratio of debt to total assets (including "released deposits" -- tenant deposits that can be used for temporary liquidity) is roughly 56% and remains high relative to its historical level.

The negative rating outlook reflects Moody's view that HRI will need some time to reduce its leverage.

HRI plans to maintain the ratio in the 40%-50% range. Should it exceed 50%, HRI will stop taking on interest-bearing debt for acquisitions. Moody's is concerned that HRI's already conservative financial policy may be stressed, given the high debt ratio relative to its historical leverage. The prices of the property in the company's portfolio are apparently declining, while leverage based on appraisal values is rising. Although HRI plans to hold off from any property acquisitions and to lower its leverage in the medium term, Moody's believes that reducing debt significantly will take some time.

Long-term debt may be as much as 80% of total debt. However, the company's limited liquidity -- such as the lack of a commitment line -- will be an issue in the future.

HRI's portfolio comprises retail properties and office buildings; more than 70% (based on acquisition prices) of the portfolio is located in the Kansai region. More than 80% of the properties were purchased from Hankyu Hanshin Holdings Group (HHHG), the sponsor of HRI. HRI has an established position in HHHG's strategy for the real estate business. Rents for some of the retail properties are based on tenants' sales (variable rents). Moody's is concerned that HRI will be negatively affected by a decline in retail sales. However, the total percentage of this type of rent revenue is about 5%, which may mitigate its risk.

The portfolio's value is concentrated in its three largest properties, which comprise around 45% (based on acquisition prices) of the pool. Alleviating the asset concentration that Moody's noted when it assigned the rating -- and which remains a concern -- may take some time. However, two of the three largest are competitive urban retail properties in Umeda, and their high visibility and tenant diversity mitigate the concentration risk.

Moody's previous rating action on HRI took place on January 15, 2009, when the agency initiated a review of its issuer rating of A2 for a possible downgrade.

The methodology used in rating REITs is the "Rating Methodology for REITs and Other Commercial Property Firms" (January 2006), which can be found at www.moody.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

Moody's Special Report, "Japan Real Estate Investment Trusts: Assessing Debt Credit Quality During Financial Turmoil" (December 2008), can be found at www.moody.com.

Hankyu REIT, Inc. is a J-REIT and focuses on investing in and managing retail and office properties. Its operating revenue for the fiscal half-year that ended in November 2008 was approximately JPY 4.6 billion.

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