



NEWS RELEASE

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R&I Assigns A Stable: MID REIT, Inc.

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

ISSUER: MID REIT, Inc. (Sec. Code: 3227)
Issuer Rating

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

RATIONALE:

Listed on the stock exchange in August 2006, MID REIT, Inc. is a real estate investment trust (J-REIT) with assets comprising nine properties valued at 146.5 billion yen (on an acquisition basis). The fund engages in investment focusing on properties in the Osaka area and in office buildings. Its sponsor is MID Urban Development Co., Ltd. (formerly Matsushita Investment and Development Co., Ltd.)

MID REIT's portfolio consists of office buildings (80%) and commercial facilities (20%), 78% of which are located in the city of Osaka and the remaining 22% in the Tokyo metropolitan area. The average acquisition price per property is 16.3 billion yen and the weighted average age at acquisition value is about 17 years.

At present, holdings in three large-scale office buildings located in Osaka Business Park (OBP) form the core of the portfolio and account for about 69% of the fund's real estate investment. However, OBP has a concentration of large, high grade office buildings where a number of Japan's major corporations have their headquarters or their Kansai bases, and access to central Osaka areas such as Umeda and Shinsaibashi by public transport is good. Therefore, MID REIT's properties can be expected to maintain competitiveness in the future.

Many of its properties located in other places are also office buildings and commercial facilities of a high standard in excellent locations in the Osaka and Tokyo areas, and have relatively high competitiveness. Therefore, the quality of the current portfolio is excellent.

Probable maximum loss (PML) in individual buildings due to area concentration in the event of an earthquake at present is 3 to 15%, with overall portfolio PML at 2.9%, which is extremely low. MID has also set as an investment standard a PML of not more than 15% for any building or 10% for the overall portfolio. In addition, if the trust acquires properties which do not meet this standard, it will take measures to reduce risk by taking out earthquake insurance, for example.

In terms of tenant composition, about 45% of the fund's leasing income is concentrated in its top two tenants (Matsushita Electric Industrial Co., Ltd. and Aeon Corp.) but in both cases, the tenants have high creditworthiness, so for the foreseeable future there is no reason for concern. In addition, tenant concentration will gradually improve with the acquisition of additional buildings.

As an external growth strategy, the fund plans to use the pipeline of the MID group and AETOS Japan, which has a stake in the MID group. Although many of the blue chip properties which the MID group owned have already been incorporated into the fund, investment support of a certain level can be expected through new projects and the network the group has established through its development over a number of years.

As a guideline, MID REIT plans to manage the fund keeping debt to total assets in ordinary times in the 40 percentiles. At present it stands at about 37%. Although it is likely that the fund's debt will rise with the acquisition of additional properties, MID REIT will probably keep it within its stated range by engaging in investment activities with an awareness of leverage levels and undertaking capital increases.

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Based on the company's business plans, R&I did 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) and according to these projections, its loan-to-value (LTV) ratio as R&I defines it is expected to be maintained on the whole at a favorable level in the vicinity of the 40 percentiles and at about 50% at the highest.

At present all of the fund's borrowing consists of secured loans from 12 financial institutions including the megabanks, city banks, trusts, regional banks, and non-life insurers. It also has in place a revolving loan with a 10-billion yen limit. The terms on its loans range from two to four years and, of these, interest on the 3-year and 4-year loans are fixed until the repayment date through interest swaps. In the future, diversifying funding methods including conversion to unsecured loans, spreading repayment dates, and issuing REIT bonds will be issues the fund will need to address.

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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.