



NEWS RELEASE

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R&I View: Monitoring of CMBS

The real estate investment market remains stagnant in Japan due to the credit crunch following the global financial crisis. Investors such as in real estate funds have been experiencing difficulty in both equity and debt financing to be appropriated for refinancing and property acquisition, and funding costs are rising. This is partly because in debt financing, the number of foreign lenders who had aggressively provided loans has decreased, and also domestic lenders have not dramatically changed their highly selective attitudes toward loans. Reflecting the harsh funding environment, investors' ability to acquire properties has been declining. On the other hand, there is a greater demand for property sale as troubled real estate or other firms need funds for their financing and CMBS redemption, for example. The gap between supply and demand has led to buyers' market. With the economic downturn and the worsening corporate performance, vacancy rates are rising and offered rents are declining. Under these circumstances, investors, who are already few, have raised their expected yields and have become extremely selective in their investment, particularly regarding the use of facilities and locations.

As a result, the liquidity of real estate for investment has declined and sale prices and appraisal value are on the decrease. While the government's measures to shore up the market are expected to take effect, it is likely to take some time before the recovery of the environment can be recognized.

At the moment, there have been no defaults as a result of the final redemption date expiration among the CMBS rated by R&I, including the underlying assets of multi-borrower CMBS (non-recourse loans and Tokutei-shasai). However, influenced by the current market environment, R&I expects that there will be a strong pressure on the refinance of CMBSs that will become due in the near future, and real estate sales. Therefore, R&I will continue monitoring these CMBSs with due care than in the past. Although R&I thus considers the market condition will remain harsh, R&I believes that it is essential to determine their creditworthiness by taking account of the individual characteristics of the CMBS. For example, the extent of the downward pressure on a rating for an individual CMBS differs depending on the current credit enhancement level and the attribute of the underlying real-estate assets. There are even cases in which the creditworthiness of the CMBS was not undermined since some of its underlying real estate assets were sold and the CMBS was partially redeemed, and the current credit enhancement level increased. By analyzing these individual attributes, R&I reviewed the current condition of the entire CMBSs and the current outlook for their creditworthiness based on the points mentioned below. In light of these considerations, R&I will announce a new rating for "MHTB Discovery II" (R&I placed on the Rating Monitor on April 3, 2009). R&I will also announce rating actions appropriately for other CMBSs as necessary.

Points of Analysis on the individual attributes

- (1) the current credit enhancement level
- (2) duration until the scheduled redemption date and the final redemption date
- (3) contents of the agreement for refinance and real estate sale and the recent performance on sales
- (4) attribute of the underlying real estate assets (condition of the location, use, grade and trends of cash flows)
- (5) experience of the sponsor and its creditworthiness

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