



NEWS RELEASE

Nov 29, 2012

R&I Affirms A+, Stable: Daiwa House Residential Investment Corp.

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

ISSUER: Daiwa House Residential Investment Corp.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

Daiwa House Residential Investment Corp. (DHI) is a residential REIT sponsored by Daiwa House Industry Co., Ltd. As a result of a merger with New City Residence Investment Corp. (NCR) in April 2010, its asset size increased sharply.

DHI invests in relatively new, conveniently located rental residences mainly in the 23 wards of Tokyo. Properties in the 23 wards of Tokyo account for 74% of total on an acquisition price basis, and the average building age is comparatively low at 7.2 years as of the end of August 2012. The number of leasable units exceeds 9,000, suggesting a very high degree of diversification. With high occupancy rates of 95-96% and only a modest fall in unit rents, cash flow is very stable.

Since the merger, DHI has been aggressively pushing ahead with a portfolio reshuffle in an effort to improve the quality and profitability of its portfolio. Despite an increasingly challenging environment for acquiring quality residential properties, R&I considers it quite possible that DHI will continue to achieve a reasonable level of external growth steadily by capitalizing on the sponsor's pipeline and the REIT's own extensive track record in property acquisition.

DHI changed names of its properties to "Castalia", except some assets. It also works to improve the efficiency and quality of property management by, for example, entrusting some duties to the Daiwa House Group.

As of the end of August 2012, DHI's LTV ratio was 55.8%, which is still slightly high despite a fall after a public offering of investment units in the autumn of 2011. Even so, DHI plans to gradually lower the ratio to 50% over the medium to long term. Thanks partly to declines in capitalization rates on existing properties and an asset reshuffle, unrealized losses have decreased to 2.6% of total book value.

Funding is going well. The average remaining term to maturity has been extended to more than three years, and maturity dates have been staggered to a certain extent. Although the balance of rehabilitation obligations it took over from NCR stood at 96.9 billion yen immediately after the merger, DHI has more than halved it by refinancing some of the obligations ahead of schedule. At the same time, financing costs have been reduced, a factor contributing to profit improvement.

The Rating Outlook is Stable. DHI's steady cash flow, diversified portfolio and strong support from the sponsor with a proven track record are among its advantages. Recent refinances have lengthened its debt profile and reduced costs, and thereby strengthened its funding capacity substantially. Although the LTV ratio is somewhat high, DHI has a relatively good access to capital markets. These factors, along with smaller unrealized losses, have mitigated financial risk.

The primary rating methodologies applied to this rating are provided at "Basic Methodologies for R&I's Credit Rating" and "Rating Methodology for J-REIT". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

<http://www.r-i.co.jp/eng/cfp/about/methodology/index.html>

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R&I RATINGS:**ISSUER:****Daiwa House Residential Investment Corp. (Sec. Code: 8984)****Issuer Rating****RATING:****A+, Affirmed****RATING OUTLOOK:****Stable**

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