R&I

# NEWS RELEASE

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## R&I Assigns AA-, Stable: Frontier Real Estate Investment

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

ISSUER: **Frontier Real Estate Investment Corp. (Sec. Code: 8964)**
**Issuer Rating**

R&I RATING: AA- (Newly Assigned)
RATING OUTLOOK: Stable

RATIONALE:

Frontier Real Estate Investment Corp. (FRI) is a real estate investment trust (J-REIT) that went public in August 2004. FRI holds 19 properties worth 174.3 billion yen in total acquisition prices. FRI is specialized in retail facilities. Mitsui Fudosan Co., Ltd. serves as its sponsor, replacing Japan Tobacco Inc. (JT) in March 2008.

FRI's current portfolio consists exclusively of retail facilities. While their locations are dispersed nationwide, 45% of its properties are located in the Tokyo metropolitan area. The average acquisition price per property is as high as 9.2 billion yen. Its properties are relatively new, with the average age of properties weighted by acquisition price standing at approximately six years. Their overall occupancy rate reached 99.9% as of the end of December 2008.

FRI selectively invests in retail facilities that have strong competitive advantages in their respective operating area, such as being the first store in the region, and also concludes long-term, stable lease contracts with tenants with high creditworthiness. FRI thereby aims to secure stable earnings over the medium to long term.

In accord with the aforementioned policies, FRI's current portfolio is primarily composed of large facilities that have excellent competitiveness in a favorable business area in the suburbs of large cities. Furthermore, its tenants have high creditworthiness and strong facility operating capacity. In addition, the majority of its lease contracts have the remaining terms of over ten years. As such, FRI has been working to maintain stable cash flow. The main types of properties are large general merchandise stores and shopping malls that can attract a number of customers. Its portfolio also includes outlet malls, intown-type retail facilities and super markets. In line with trends in the retail industry, FRI has been diversifying its portfolio in terms of the use of facilities.

For FRI, the top five properties account for 61% of the total acquisition prices and the top five tenants occupy 83% of the total lease areas. However, the risk posed by this concentration is mitigated, given the competitiveness of each property and the creditworthiness of its tenants, as well as the stability of its lease contracts. Of the 19 properties FRI holds, 12 were acquired from its former sponsor, JT, 5 from the current sponsor, Mitsui Fudosan, and 2 from outside. On FRI's current portfolio, the net operating income (NOI; property leasing profits before depreciation and amortization) yield is high, standing at approximately 6%. This suggests that FRI has been acquiring properties from the old and new sponsors on relatively reasonable conditions. As FRI intends to continue to aggressively utilize its pipeline from Mitsui Fudosan, there is a significant possibility that FRI can achieve external growth while maintaining the quality of its portfolio.

For the operation and management of all of its properties excluding sokochi (i.e. the ownership of residential land with land leasehold), FRI has concluded a basic agreement concerning shopping center management with Mitsui Fudosan. Under this agreement, Mitsui Fudosan provides comprehensive management operations for retail facilities, including a wide range of services and expertise to understand trends in operating areas, rival stores and tenants, in addition to general property management operations. This is FRI's strength since it can gain support from the

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experienced sponsor as the operation of retail facilities requires a comparatively high degree of expertise.

FRI intends to operate with a debt ratio (*) of approximately 40% in normal situations. The ratio is currently in the mid 40% range. FRI utilizes security and guarantee deposits received from its retail facilities tenants as one of the effective financing means, and when calculated only with loans, the debt ratio is in the lower half of the 20% range.

At present, long-term borrowings account for only a small percentage of its debt. Financing through security and guarantee deposits has the advantages of a longer duration of liabilities and diversified repayment dates. Since the practice of providing a large amount of security and guarantee deposits is diminishing, it will become more important for FRI to enhance the safety of its financial profile by, for example, promoting long-term borrowings. FRI has already begun to shift a part of its short-term debts to long-term debts, setting an immediate target of having its long-term debts account for approximately 70% of its liabilities (including security and guarantee deposits).

All of the loans that have so far been extended to FRI are unsecured and unguaranteed, and FRI currently has good business relationships with seven major banks in Japan. Supported by its past operating performance and the strong creditworthiness of its sponsor, FRI has established a stable financing base.

(*) Debt ratio: (Loans + security and guarantee deposits – unrestricted cash and deposits) / (total assets - unrestricted cash and deposits)

The primary rating methodologies applied to this rating are provided at "R&I J-REIT Rating Methodology" and "Basic Methodologies for R&I's Credit Rating". The methodology is 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/rating/st/methodology.html
http://www.r-i.co.jp/eng/rating/rating/methodology.html

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| R&I RATINGS: | |
| ISSUER: | Frontier Real Estate Investment Corp. (Sec. Code: 8964) |
| ISSUER RATING: | AA- (Newly Assigned) |
| RATING OUTLOOK: | Stable |

In principle, an Issuer Rating is R&I's opinion on an issuer's overall capacity to repay its financial obligations as agreed and is assigned to all issuers. The rating of individual obligations 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.

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