



# NEWS RELEASE

Sep 28, 2010

## R&I Affirms 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- (Affirmed)**  
**RATING OUTLOOK: Stable**

### **RATIONALE:**

Frontier Real Estate Investment Corp. (FRI) is a real estate investment trust (J-REIT) that went public in August 2004, specializing in retail facilities with Mitsui Fudosan Co., Ltd. as its sponsor.

FRI's portfolio is primarily composed of large facilities that are very competitive in prime commercial areas in suburbs of large cities. While their locations are dispersed nationwide, a little more than 40% of its properties are located in the Tokyo metropolitan area. The average acquisition price per property is as high as 9.4 billion yen. Its properties are relatively new, with the average age weighted by acquisition price standing at approximately 6 years.

FRI has steadily achieved external growth by aggressively utilizing the pipeline from the sponsor. Its asset size has expanded to more than 200 billion yen on an acquisition price basis. In July 2010, FRI acquired Mitsui Shopping Park LaLaport Iwata and GINZA GLASSE for 15.2 billion yen and 13.6 billion yen, respectively, from the sponsor group. The REIT is also working to diversify its property acquisition routes. In December 2009, it acquired TSUTAYA Fukuoka Tenjin for 3.7 billion yen using the independent networks of its asset manager.

The net operating income (NOI) yield for the term ended June 2010 was 5.8%, suggesting that FRI maintains a relatively high earnings capacity. While the business environment for the retail industry remains harsh, its impact on FRI's cash flow has been reduced, in that (1) The REIT's properties, such as a No.1 store in town, largely maintain a high competitive edge; (2) Many of its properties are on lease under long-term, stable contracts with highly creditworthy tenants; and (3) The asset manager and the sponsor have high ability to operate commercial facilities.

The top five properties account for 51% of the total acquisition price. With many properties being leased to a single tenant, concentration to certain tenants also exists. As mentioned so far, medium and short-term concerns are marginal. For long-term, stable operations, however, it is essential to make the portfolio more diverse through continued steady external growth.

FRI intends to contain a debt ratio (\*) within the range of 40 to 50%. In tandem with the property acquisition in July 2010, FRI issued new investment units totaling approximately 19.5 billion yen, moving forward with external growth while reducing its debt ratio. The current debt ratio is relatively low at the lower 40% level. FRI's assets have now appreciated with the assessed value at the end of June 2010 being about 9% higher than the book value.

FRI utilizes security and guarantee deposits received from its retail facility tenants as one of the effective financing means. When considering only loans, the debt ratio stands at the 20% level. The utilization of the deposits has allowed FRI to reduce borrowing costs, lengthen the maturity profile and obtain other financial benefits. Since the practice of providing a large amount of deposits is diminishing, the ratio of financing through the deposits is most likely to fall going forward. It will become more important for FRI to lengthen the maturity profile by, for example, increasing the ratio of long-term loans and issuing corporate bonds. FRI has already begun to convert some short-term debts to long-term ones. The ratio of long-term debts (including security and guarantee deposits) is currently around 75%.

The loans that have so far been extended to FRI are unsecured and unguaranteed, and the REIT maintains good business relationships with domestic mega banks, trust banks and other major financial institutions. In addition to the existing committed line of credit of 3 billion yen, FRI has entered into a 3 billion yen committed line of credit agreement with Sumitomo Mitsui Banking Corp.

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The Rating Outlook is Stable. FRI intends to continue selectively investing in properties that can generate stable earnings over the mid and long term by using the pipeline from the sponsor. On the financial front, R&I expects the REIT to maintain its conservative leverage management policy and continue stable funding.

(\*) 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 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/sf/about/methodology/index.html>

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

**R&I RATINGS:**

**ISSUER:**

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

**ISSUER RATING:**

**AA- (Affirmed)**

**RATING OUTLOOK:**

**Stable**

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