

Oct 15, 2015

R&I Affirms AA-, Stable: Frontier Real Estate Investment Corp.

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

ISSUER: Frontier Real Estate Investment Corp.
Issuer 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. The REIT specializes in retail facilities and is sponsored by Mitsui Fudosan Co., Ltd.

FRI primarily invests in highly competitive large retail facilities. While their locations are diversified across the nation, properties in the Greater Tokyo Area account for approximately 47% of total on an acquisition price basis. The average acquisition price is high at 8.8 billion yen, and the REIT's properties are relatively new, with the building age weighted by acquisition price averaging 9 years (as of June 2015).

Despite the increasingly challenging environment for property acquisitions, FRI continues to make steady property acquisitions capitalizing on the sponsor's pipeline. The REIT acquired three properties, including Shinsaibashi Square, for approximately 17.2 billion yen from the sponsor group in 2015, expanding the asset size to 283.1 billion yen.

FRI works to stabilize earnings by making a long-term lease contract with most of its tenants. The average remaining term of lease contracts is very long at 12 years (as of August 2015).

The NOI yield has been kept relatively high at 5.5-6.0%. The competitive landscape of retail facilities continues to be harsh. Some of FRI's properties are affected by the opening of rival facilities. However, given the competitiveness of its properties and the stability of the lease contracts, there is a limited risk that FRI's overall earnings will fall significantly. Furthermore, the REIT is actively working to maintain and enhance competitiveness through additional investments in existing facilities. In April 2015, it completed a large scale renewal at AEON MALL Ibaraki, which had been implemented with the cooperation of tenants.

The LTV ratio (*) is low at 41.7% as of June 2015. FRI plans to manage the LTV ratio in the conservative range of 40-50%, and the sound financial profile will likely be maintained. Its properties' appraisal value as of June 2015 was around 15% above the book value. This suggests that unrealized gains have expanded.

FRI's funding base is solid. The average remaining term to maturity of debts is as long as 3.9 years (as of June 2015) and the due dates are staggered over a long period of time. The committed line of credit has been reduced to 15 billion yen in total, but is sufficient to cover the annual repayment. Moreover, the REIT uses tenant and security deposits received from its retail facility tenants as a long-term, low-cost fundraising means.

The Rating Outlook is Stable. Though the environment for property acquisitions is tough, FRI plans to capitalize on the sponsor's pipeline and other sources, and thereby carefully choose properties and invest in them without getting involved in excessive competition. On the financing front, the REIT is expected to maintain its conservative leverage management stance and stable funding base.

(*) LTV: (Borrowings, etc. + Tenant and security deposits - Unrestricted cash and deposits) / (Total assets balance - Unrestricted cash and deposits)

The primary rating methodology applied to this rating is provided at "Rating Methodology for J-REIT". 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/cfp/about/methodology/index.html>

■Contact : Investors Service Division TEL.+81-(0)3-3276-3511 E-mail. infodept@r-i.co.jp
■Media Contact : Corporate Planning Division (Public Relations) TEL.+81-(0)3-3276-3438

Rating and Investment Information, Inc. Nihonbashi 1-chome Mitsui Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, <http://www.r-i.co.jp>

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R&I RATINGS:

ISSUER: Frontier Real Estate Investment Corp. (Sec. Code: 8964)
Issuer Rating
RATING: AA-, Affirmed
RATING OUTLOOK: Stable

Unsec. Str. Bonds No.1	Issue Date	Maturity Date	Issue Amount (mn)
	Mar 11, 2011	Mar 11, 2016	JPY 5,000
RATING:	AA-, Affirmed		

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