

Nov 15, 2013

## 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's portfolio is primarily composed of highly competitive large facilities located in the prime commercial areas of major city suburbs. While the REIT has properties nationwide, approximately 49% of them are located in the Greater Tokyo area. The average acquisition price per property is as high as about 9.4 billion yen, and its properties are relatively new, with the average age weighted by acquisition price standing at 8.3 years (as of end-August 2013).

FRI continues to achieve steady external growth by utilizing its sponsor's pipeline of assets. In 2013, the REIT acquired "Ikebukuro Square", a new retail facility located in a prime urban area, and "Mitsui Shopping Park ALPARK (East Building)", the largest shopping mall in the Chugoku and Shikoku regions, for 20.4 billion yen and 5.4 billion yen, respectively. As a result, its asset size expanded to over 270 billion yen.

The NOI yield for the term ended June 2013 was 5.8%, suggesting that FRI maintains a relatively high earning capacity. FRI plans to increase the ratio of urban retail facilities in the future. In that case, the NOI yield may fall to a certain extent compared to the current level. Meanwhile, if excellent urban retail facilities are added to the portfolio, the quality of the portfolio will further improve.

The competitive environment for retail facilities remains harsh. Such trend is seen in part of FRI's properties, which have been affected by the opening of competing facilities. However, the risk of overall earnings declining significantly seems limited, given the competitive strength of its properties, the stability of lease agreements and the Mitsui Fudosan group's high ability to operate retail facilities, among others.

FRI plans to manage the LTV ratio (\*) in the range of 40-50%. The ratio was lowered to 41% as a result of the public offering of investment units in March 2013, which followed that in the previous term. The debt-equity structure is kept sound with the appraisal value of assets as of end-June 2013 11% higher than the book value.

FRI utilizes tenant and security deposits received from its retail facility tenants as a long-term, low-cost funding-raising means. Although the ratio of financing through these deposits is gradually falling with the expansion of the asset size, FRI maintains a sound debt-equity structure by raising funds on favorable terms through, for example, loans and bonds. The average remaining period of debt is extended to about 3.6 years (as of end-June 2013).

The loans extended to FRI have been all unsecured and unguaranteed from the start, and the REIT remains in good business relationships with domestic megabanks, trust banks and other major financial institutions. The due dates are staggered every year through 2023. With annual repayments being lower than the amount of the committed line of credit (17 billion yen in total), the REIT ensures sufficient liquidity.

The Rating Outlook is Stable. FRI intends to continue selectively investing in properties that can generate stable earnings over the mid and long terms, capitalizing on its sponsor's pipeline of assets. On the financial front, R&I expects the REIT to maintain its conservative leverage management policy and a stable funding base.

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

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balance - Unrestricted cash and deposits)

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>

#### 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
<b>RATING:</b>	<b>AA-, Affirmed</b>		

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